



Financial Audit Guide



**Office of the Auditor General
Anamnagar, Kathmandu, Nepal
2023**

Financial Audit Guide

**Office of the Auditor General
Anamnagar, Kathmandu, Nepal
2023**

Foreword

It is my immense pleasure to release the Financial Audit Guide of the Office of the Auditor General of Nepal. This guide will be applicable in undertaking respective financial, compliance, performance audits of the entities as per the Audit Act, 2075.

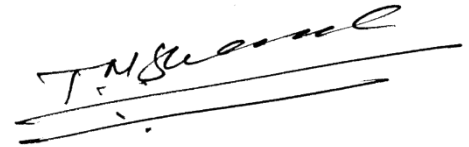
This guide provides a clear picture of methods and approaches to audit that the audit staff is required to comply with in imparting their duties. It has been built around the prevailing Audit Act, Nepal Government Auditing Standards (NGASs), and office policies that require conducting a high-quality audit. Since NGASs are based on INTOSAI framework for Professional Pronouncement (IFPP), this guide seeks to incorporate the Nepal audit practices at par with the international best practices.

This guide provides guidance and direction in all phases of the audit from pre-panning to follow-up including financial audit concepts, prerequisites, pre-engagement, planning, execution, reporting, follow-up, audit quality control with necessary working papers which encourages professional judgment where it requires. The guide does not override the legal requirements and conditions of NGASs. Likely, it shall not limit the professionalism of the officials entrusted with the responsibility of conducting audits.

Our knowledge, skill, and experience with auditing practices continue to evolve, and so will this guide. This guide is expected to be updated for the continuous improvement of audit practices to meet legal provisions, audit standards, and practices to address emerging risks.

My special thanks to all staffs who prepared the guide and provided their valuable feedback and comments to make this guide implementable which, I do hope, will be of use to conduct audits efficiently and effectively.

April 26, 2023



Tankamani Sharma, Dangal
Auditor General

Table of Contents

About this Guide

1. Overview	1
2. Purpose of this guide and its users	1
3. Structure of this Guide	1
1. Introduction	
1.1. Financial Audit Concepts	3
1.1.1. Financial Audit definitions	3
1.1.2. Objective of financial audit	3
1.1.3. Subject matter, criteria and three parties in financial audit	4
1.1.4. Prerequisite of financial audit	5
1.1.5. Financial Reporting framework	5
1.1.6. Reasonable Assurance	6
1.1.7. Inherent limitation of audit	6
1.1.8. Requirements for the conduct of an audit	7
1.1.9. Sufficient appropriate audit evidence	7
1.1.10. Conduct of an audit in accordance with the manual	8
1.2. Legal Mandate for Financial Audit	8
1.3. Overview of Financial Audit Process	9
1.3.1. Financial Audit Process Flow	9
1.3.2. Working Papers to complete	11
1.4. Common Audit Activities	12
1.4.1. Documenting the audit	12
1.4.2. Audit Review Process	15
1.5. Note for reviewers	18
1.6. Compliance with international standards	18
1.7. Body of knowledge	18
2. Audit Prerequisites	
2.1. Objectives	19
2.2. Working papers and applicable standards	19
2.3. Steps / Process	19
2.3.1. OAGN Public Audit Restructuring Framework and Financial Audit	19
2.3.2. Risk based classification of offices in Annual Audit Plan	20
2.3.3. Annual Audit Plan (AAP) of OAGN	20
2.3.4. Evaluating Financial Reporting Framework (PR 1)	21
3. Audit Pre-Engagement	
3.1. Objectives	22
3.2. Working papers and applicable standards	22
3.3. Audit Steps	22

3.3.1.	Step 1 Team composition (PE 1)	22
3.3.2.	Step 2 Ethical declaration (PE 2)	23
3.3.3.	Step 3 Record of activities (PE 3)	24
3.3.4.	Step 4 Engagement Letter (PE 4)	24
4.	<i>Audit Planning</i>	
4.1.	Objectives	26
4.2.	Working papers and applicable standards	26
4.3.	Audit Steps	27
4.3.1.	Step 1 Overall Audit Strategy (AP 1) – Entity Audit Plan	27
4.3.2.	Step 2 Audit Plan (AP 2) – Office Audit Plan	40
5.	<i>Audit Execution</i>	
5.1.	Objectives	44
5.2.	Working papers and applicable standards	44
5.3.	Audit Steps	45
5.3.1.	Step 1 Audit authorisation letter (AE 1)	45
5.3.2.	Step 2 Entry meeting minutes (AE 2).....	45
5.3.3.	Step 3 Allocation of work.....	46
5.3.4.	Step 4 Test of controls (AE 3).....	46
5.3.5.	Step 5 Changes of audit plan (audit programme / checklist) - if any.....	48
5.3.6.	Step 6 Audit sampling (AE 4)	48
5.3.7.	Step 7 Substantive procedures (AE 5)	53
5.3.8.	Step 8 Audit evidences	55
5.3.9.	Step 9 Other procedures (AE 6)	56
5.3.10.	Step 10 Audit queries (memos)	60
5.3.11.	Step 11 Written representation (AE 7)	61
5.3.12.	Step 12 Exit meeting minutes (AE 8)	62
6.	<i>Audit Reporting</i>	
6.1.	Objectives	63
6.2.	Working papers and applicable standards	63
6.3.	Audit Steps	63
6.3.1.	Step 1 Evaluation of Misstatements	63
6.3.2.	Step 2 Supervisor’s Review (AR 1)	64
6.3.3.	Step 3 Preliminary Audit Report (AR 2)	65
6.3.4.	Step 4 Forming and Opinion	67
6.3.5.	Step 5 Auditor’s Report (AR 3).....	68
7.	<i>Audit Follow-up</i>	
7.1.	Objectives	76
7.2.	Working paper and standards and legal requirements	76
7.3.	Steps / Process	76
7.3.1.	Legal requirement of Audit Follow up	77
7.3.2.	OAGN follow-up is done at following stages	78
7.3.3.	Other follow-up considerations.....	79
8.	<i>Audit Quality Control</i>	

- 8.1. Objectives.....80
- 8.2. Working paper and applicable standards80
- 8.3. Steps / Process.....80
 - 8.3.1. Elements of a system of Quality Control 80
 - 8.3.2. Steps of engagement quality control 82
 - 8.3.3. Quality control process..... 83
 - 8.3.4. Quality Assurance 84

Working Papers

List of Abbreviations

Abbreviation	Full form
AAP	Annual Audit Plan
AG	Auditor General
ASB	Accounting Standards Board of Nepal
CA	Compliance Audit
COTABD	Class of Transactions, Account Balances and Disclosures
FA	Financial Audit
IDI	INTOSAI Development Initiatives
IFPP	INTOSAI Framework for Professional Pronouncements
INTOSAI	International Organisation of Supreme Audit Institution
ISSAIs	International Standards for Supreme Audit Institution
ML	Management Letter
NAMS	Nepal Audit Management System
NFRS	Nepal Financial Reporting Standards
NGAS	Nepal Government Auditing Standards
NPSAS	Nepal Public Sector Accounting Standard
OAGN	Office of Auditor General of Nepal
PA	Performance Audit
PAR / ML	Preliminary Audit Report / Management Letter
PARF	Public Audit Restructuring Framework
ROMM	Risk of Material Misstatements

About this Guide

1. Overview

Financial Audit Guide has been developed under Strengthening Office of Auditor General of Nepal project to address the institutional and strategic issues that Office of Auditor General of Nepal have to deal with when conducting financial audits in accordance with applicable standards. This guide has been developed in agreement with Nepal Government Auditing Standards (NGAS) which are substantially aligned with INTOSAI Framework of Professional Pronouncements and Nepal's legal requirements.

With the periodic changes in the international standards on auditing as applicable to supreme audit institutions, necessity was felt to restructure the auditing practices at OAGN. Those changes require audit to be restructure in three principal audit areas namely financial audits, performance audits and compliance audits. This guide, which specifically provides for the financial audits and supersedes the earlier financial audit manual.

As OAGN embarks on use of technology in auditing, the processes outlined in this is Financial Audit Guide, have been to be incorporated within the Nepal Audit Management System (NAMS). This guide is intended to carter to the need of the users to have practical focused guide that the financial auditor could use in conducting NGAS compliant financial audits by using technology.

2. Purpose of this guide and its users

The guide outlines the audit methodology that contains explanations of the financial audit process as well as audit working paper templates that are designed to facilitate the application of standards in practice. OAGN may design and develop additional audit guides, where required, to meet requirements that may be imposed by the laws, regulations and practices. The methodology suggested in this guide extensively covers the audit work to be performed and documented at an audit engagement level.

The guide is solely for the purpose of financial audits under the constitutional mandate of OAGN. The principal users of this guide are the auditors OAGN. The guide may also be used by those auditors involved in financial audit on behalf of the OAGN.

3. Structure of this Guide

The information in this financial audit guide is aimed at providing the audit team with a methodology for completing a financial audit. The audit working papers are standardised and the method of

documenting and referencing information is also provided to ensure consistency.

- Introduction (Chapter 1) – This stage discusses on the concepts of financial audit, legal mandate for financial audit and gives the overview of the financial audit process and defines processes such as review and documentation that are overarching and pervasive for all of audit processes and compliance with applicable standards.
- Audit Prerequisites (Chapter 2) – Covers, financial audit’s relationship with OAGN annual audit plan, Nepal Government Auditing Standards and OAGN’s restructured public audit framework. Here in this stage, evaluation of financial reporting framework is performed.
- Audit Pre-engagement (Chapter 3) – Includes an assessment of the objectivity, integrity and technical capacity of audit staff and advises on establishing the budgeted time for the audit and how to gain a common understanding and expectations through issuance of an engagement letter.
- Audit Planning (Chapter 4) – Includes understanding the business and environment under which the audited entity operates, setting overall performance materiality levels, assess and responds to risks at a financial statement level, identify and design appropriate audit responses to address the risks identified. Conclude on the overall audit strategy with determining the nature, timing and extent in the audit plan (checklists).
- Audit Execution (Chapter 5) - Document the performance of the audit plan (which can be in the form of audit programmes or checklists) by completing the provided procedures. Once audit programmes have been performed the auditor should evaluate audit results and look at some overall aspects before finalising the audit.
- Audit Reporting (Chapter 6) – Compile the auditor’s conclusions in preliminary audit report to set out audit findings and observations and express an opinion on the financial statements in the form of ‘Auditor’s Report’.
- Audit Follow-up (Chapter 7) – Provides the concepts and procedures regarding follow-up actions related to follow-up on audit observations and irregularities included in reports at different levels.
- Audit Quality Control (Chapter 8) - Review of work performed by auditors throughout all phases of the audit process to ensure that the audit complies with professional standards including applicable legal and regulatory requirements.

1. Introduction

1.1. Financial Audit Concepts

1.1.1. Financial Audit definitions

Financial audit is concerned with performing audit procedures to determine whether an entity's financial information is presented in accordance with the applicable financial reporting and regulatory framework. This is accomplished by obtaining sufficient and appropriate audit evidence to enable the auditor to express an opinion as to whether the financial information is free from material misstatement due to fraud or error¹.

Obtaining sufficient and appropriate audit evidences shall also involve audit of financial information at underlying hierarchy (hereinafter referred as 'offices'), as these make up the components of the financial statements prepared under the financial reporting framework. Office of Auditor General of Nepal (OAGN) under its annual risk-based audit planning process classifies the offices based on risk assessment for performing audit procedures.

For the purpose of this guide:

- i. **Entity:** means the body that prepares financial statements in accordance with the applicable financial reporting framework, whether general or specific.
- ii. **Offices:** means the underlying hierarchy or the constituent components of the entity that include subordinate offices (or branches where applicable) or similar bodies whose financial information are included in the financial statements.
- iii. **Financial Statements:** refer to a complete set of financial statements as determined by the requirements of the applicable financial reporting framework².
- iv. **Financial Information:** refer to accounting and related data of the entity and/or offices which may or may not have been presented in a reporting form.

1.1.2. Objective of financial audit

The objective of financial audit is, through the collection of sufficient appropriate evidence, to provide reasonable assurance to the users, in the form of an audit opinion and/or report, as to whether the financial statements or other forms of presentation of financial information are fairly and/or in all material respects presented in accordance with the applicable financial reporting and regulatory framework³.

¹ ISSAI 100.22: ISSAI 200.7

² ISSAI 2200.13(f)

³ ISSAI 200.8

The purpose of an audit is to enhance the degree of confidence of intended users in the financial statements. The overall objectives of the audit of financial statements are⁴:

- (a) To obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error;
- (b) Thereby enabling the auditor to express an opinion through a report on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework.

1.1.3. Subject matter, criteria and three parties in financial audit

Subject Matter

The subject matter of a financial audit is the accounting and related data of an entity, presented in the form of financial statements⁵. The “financial statements” refers to a complete set of financial statements as determined by the requirements of the applicable financial reporting framework⁶.

Financial statements, for government sector, under legal requirements in Nepal are those prepared under financial reporting standards notified by the government and includes budget estimations, receipts and payments, closing balances and explanatory notes and disclosures⁷.

Criteria

Criteria are the benchmarks, measures or attributes against which the subject matter is measured against to come to a conclusion on the audit objectives. The criteria used in the audit of financial statements would generally be based on the financial reporting framework used by the responsible party in their preparation⁸. In the case of fair presentation frameworks, the auditor assesses whether the information is fairly presented. In the case of compliance frameworks, the auditor assesses the extent to which compliance is achieved⁹.

Auditor

Auditor for public sector in Nepal is as per the Constitution, the Auditor General of Nepal.

Responsible Party

Responsible party is the government entity or public sector institution whose financial statements have to be audited under the legal mandate of OAGN.

⁴ ISSAI 2200.11

⁵ ISSAI 200.23

⁶ ISSAI 2200.13(f)

⁷ Financial procedures and Financial Accountability Act, Sec 2

⁸ ISSAI 200.24

⁹ ISSAI 200.7

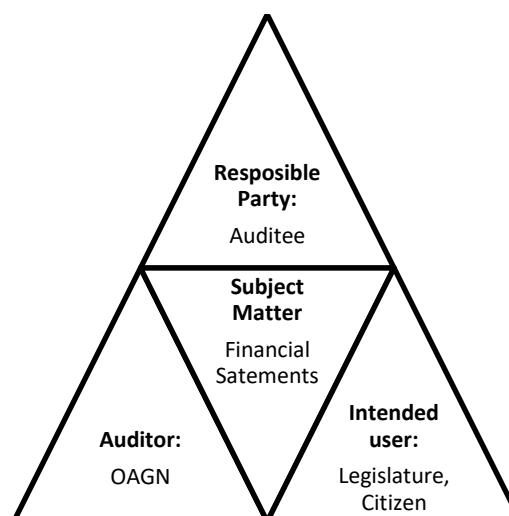
Intended users

Intended users of the financial statements in public sector is primarily the legislature, which represents the citizens (who are the ultimate users).

Audits of financial statements are defined as assurance engagements, which involve at least three separate parties: an auditor, a responsible party and intended users.

Financial Audit has three parties:

- Responsible Party (prepares);
- Auditor (audits); and
- Intended Users (uses)



1.1.4. Prerequisite of financial audit

Following are the prerequisites in the financial audit.

- Financial reporting framework has been used for preparation of financial statements.
- The management of the entity acknowledges and understands its responsibility for:
 - Preparation of financial statements in accordance with acceptable framework;
 - Internal control as management deems necessary or required by law for preparation of financial statements that are free from material misstatements whether due to fraud or error;
 - Providing the auditor with accesses to all information and persons necessary to complete the audit

There is a legal obligation on designated entities to prepare financial statements in accordance with applicable financial reporting framework. In rare circumstances, when such financial statements are not prepared, OAGN may conduct financial audit of available financial information and OAGN shall report appropriately describing the circumstances and the impact of such non-compliance of the reporting framework and legal requirements.

1.1.5. Financial Reporting framework

Financial reporting frameworks are either:

- General purpose: designed to meet the information needs of a wide range of users; or
- Special purpose: designed to meet the needs of a specific user or group of users (for

example the financial reporting provisions established by an international funding organisation, a governing body, the legislature or by a contract).¹⁰

Government entities are required to prepare financial statements in the format prescribed OAGN which is in compliance with prevalent public sector financial reporting framework (NPSAS). Similarly, Accounting Standards Board (ASB) has notified standards, namely NFRSs that are applicable to State Owned Enterprises, which are also within the mandate of OAGN audit.

The principles of financial audit are relevant for audits of different types of financial statements, such as those prepared in accordance with both general purpose (e.g. IPSASs, IFRSs or national frameworks such as NFRSs / NPSAS) and special purpose frameworks.¹¹

1.1.6. Reasonable Assurance¹²

The audit of financial statements is an attestation engagement which aim to provide reasonable assurance. Reasonable assurance is a high but not absolute level of assurance, which means it is not a guarantee that the audit will detect all cases of material misstatement.

Limited assurance engagements, such as some review engagements, are not covered by NGAS.¹³

1.1.7. Inherent limitation of audit

The auditor is not expected to, and cannot, reduce audit risk to zero and cannot therefore obtain absolute assurance due to inherent limitations of audit contributed by¹⁴:

- (a) Management or others, intentionally or unintentionally, may not provide the complete information that is relevant to the preparation of financial statements;
- (b) No system of internal control can guarantee completeness and accuracy of accounting records; nor can it be absolute proof against human error and fraud;
- (c) Audit evidences are persuasive rather than conclusive in nature;
- (d) Audits are performed on test check basis (on sampling basis);
- (e) Fraud may involve sophisticated and carefully designed to conceal and audit procedures designed to gather audit evidence may be ineffective for detecting an intentional misstatement;
- (f) Preparation of financial statements involve judgement by the management thus involves subjectivity and degree of uncertainty;
- (g) Auditor is neither trained as nor expected to be an expert in the authentication of documents;
- (h) Audit is not an official investigation into alleged wrongdoing;
- (i) Audit is expected to be completed within reasonable period of time and cost.

¹⁰ ISSAI 200.10

¹¹ ISSAI 200.11

¹² ISSAI 200.25; ISSAI 2200.13(m)

¹³ ISSAI 200.27

¹⁴ ISSAI 2200.A48-A50

1.1.8. Requirements for the conduct of an audit

***i.* Ethical requirements**

The auditor shall comply with relevant ethical requirements, including those pertaining to independence, relating to financial statement audit engagements¹⁵.

***ii.* Professional Scepticism**

The auditor shall plan and perform an audit with professional scepticism recognising that circumstances may exist that cause the financial statements to be materially misstated. Professional scepticism means an attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence¹⁶. Examples where auditors need to be alert are:

- Audit evidence that contradicts another audit evidence obtained.
- Information that brings into question the reliability of documents and
- Responses to inquiries to be used as audit evidence.
- Conditions that may indicate possible fraud.
- Circumstances that suggest the need for audit procedures in addition to those required by the auditing standards.

***iii.* Professional judgement**

The auditor shall exercise professional judgment in planning and performing an audit of financial statements. Professional judgment means application of relevant training, knowledge and experience, within the context provided by auditing, accounting and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the audit engagement¹⁷. Examples of judgements:

- Materiality and audit risk;
- The nature, timing and extent of audit of audit procedures;
- Evaluating whether sufficient and appropriate audit evidence has been obtained;
- Evaluating management's judgement in applying applicable reporting framework;
- Drawing conclusions based on the audit evidence

1.1.9. Sufficient appropriate audit evidence

To obtain reasonable assurance, the auditor shall obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level and thereby enable the auditor to draw reasonable

¹⁵ ISSAI 2200.14

¹⁶ ISSAI 2200.13(l), 15, A20-A24

¹⁷ ISSAI 2200.13(k), 16, A25-A29

conclusions on which to base the auditor's opinion¹⁸.

1.1.10. Conduct of an audit in accordance with the manual

The auditor shall comply with all provisions of this manual relevant to the audit. The auditor shall not represent compliance with this manual in the auditor's report unless compliance to all the relevant requirement of the manual has been made¹⁹.

1.2. Legal Mandate for Financial Audit

Audit Act, 2075 categorically provides for the financial audits to be conducted by OAGN and the provisions are attuned to the requirements of the auditing standards.

Section 4 of the Audit Act, 2075 provides mandate for the Office of Auditor General to conduct Financial Audit, applying sampling procedures to provide audit opinion on financial statements.

Section 5 of the Audit Act specifically provides mandate for AG to conduct of Financial Audit of the entities specified in Sec 3(1) of the Act considering regularity, economy, efficiency, effectiveness and propriety.

Section 8, of Audit Act, 2075 spells out the obligation of the OAGN to audit among others matters areas directly relating to financial audit are as follows as follows:

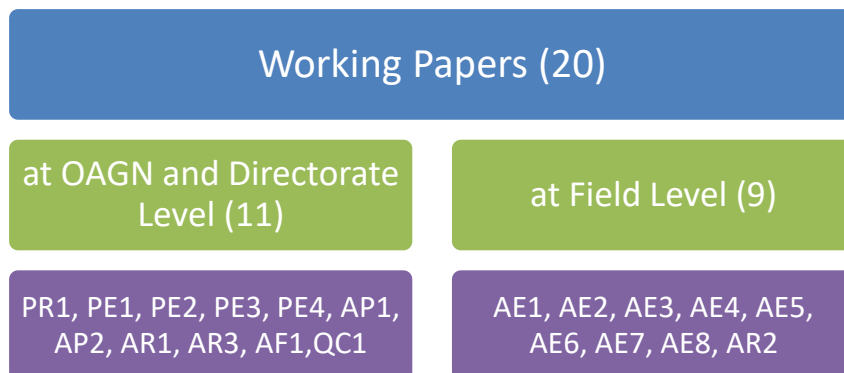
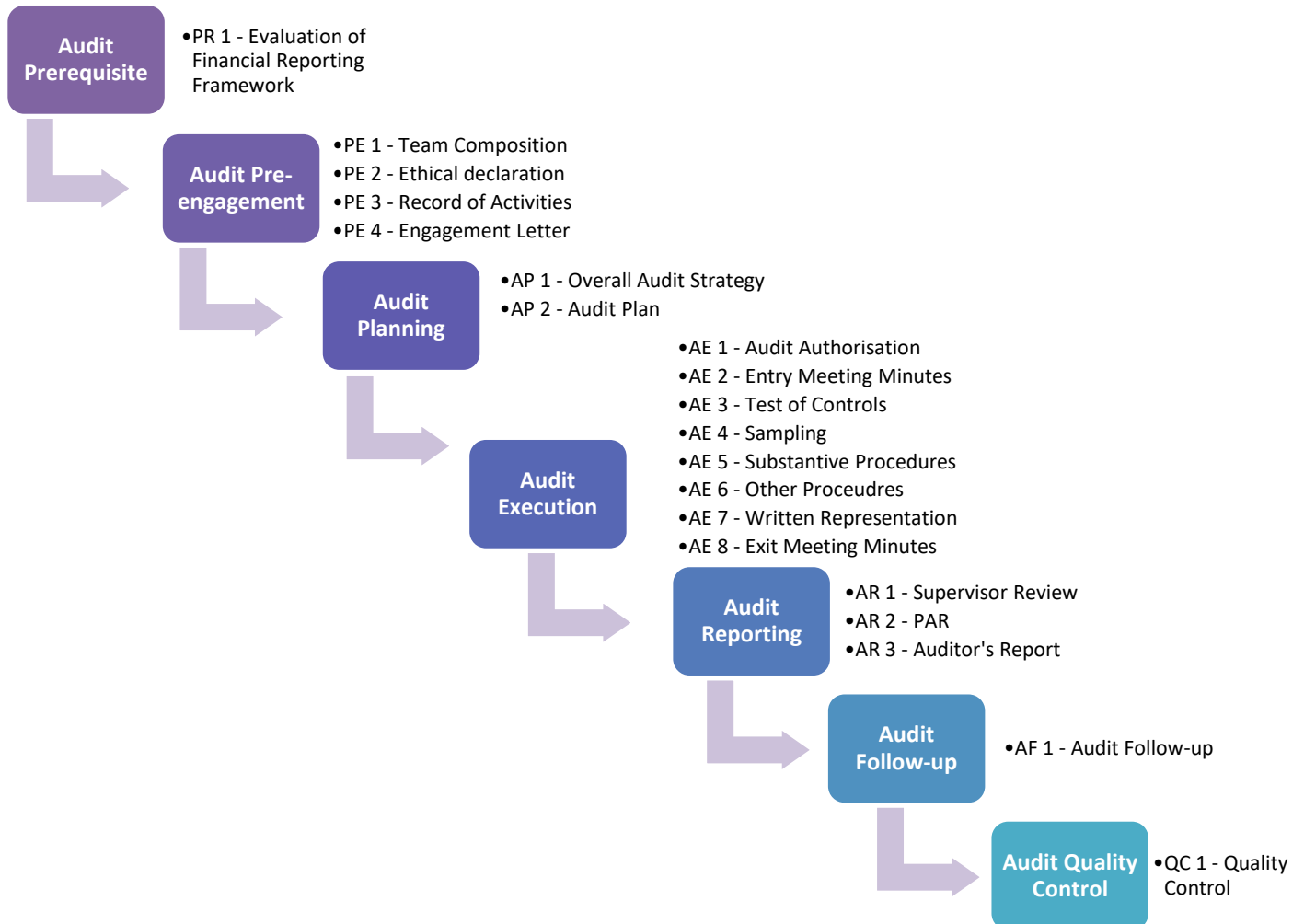
- when financial statements are prepared, to audit such financial statements and report whether those are fairly presented or not;
- and report whether financial statements represents the financial transactions covered within the period;
- whether amounts have been presentation in accordance with the Appropriation Act or not;
- financial statements represent all the financial transactions or not;
- whether federal, provincial and local consolidated funds and emergency funds are fairly represented or not;
- evidences to support receipts are payments have been sufficient and appropriate;
- public debts and investments are accurately accounted for and fairly presented;
- Revenue and recoveries have been accurately accounted for and fairly presented.

¹⁸ ISSAI 2200.17

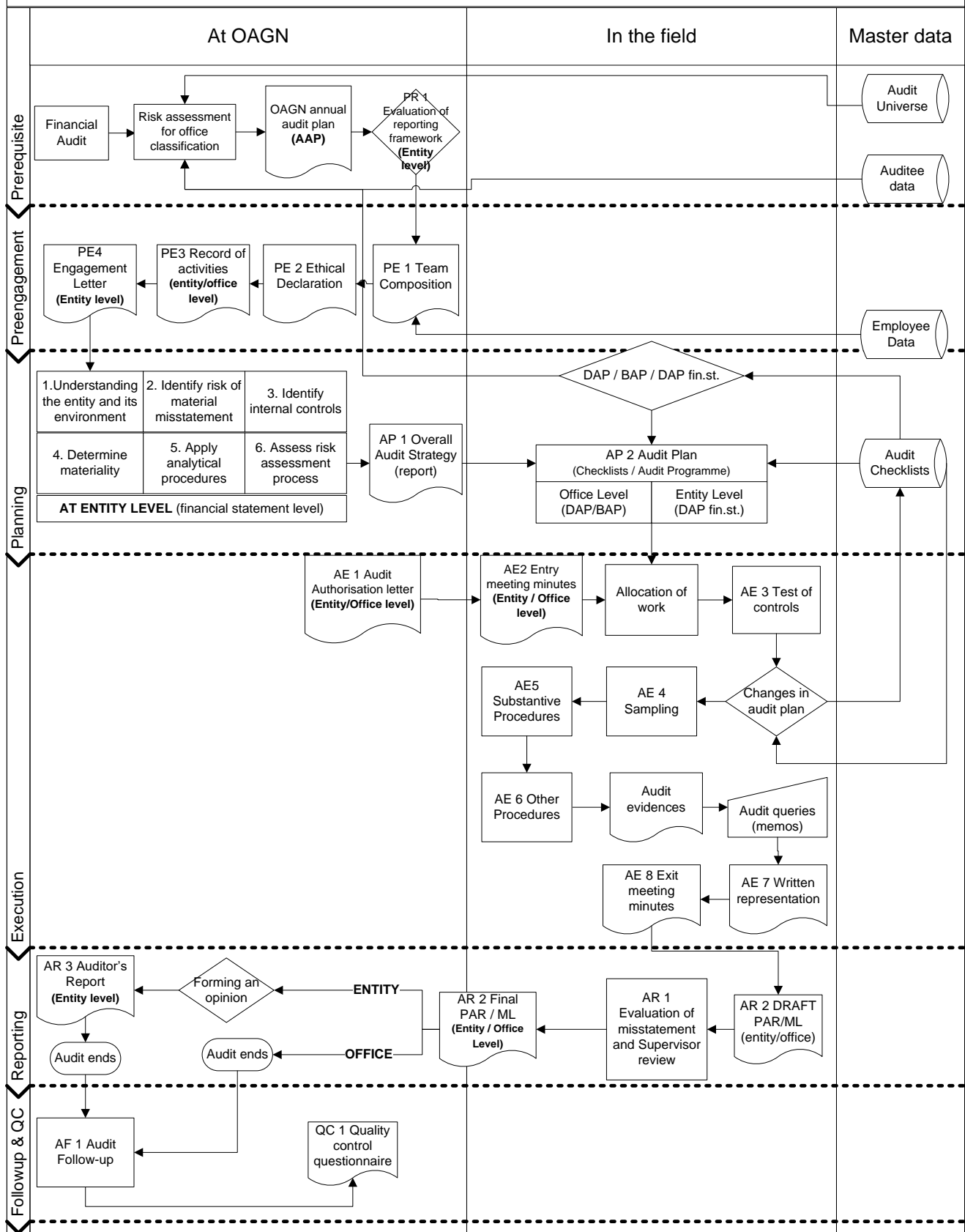
¹⁹ ISSAI 2200.18-20

1.3. Overview of Financial Audit Process

1.3.1. Financial Audit Process Flow



OAGN – Financial Audit Process Flow



1.3.2. Working Papers to complete

SN	WP no.	WP Name	Objectives of the working paper	Implemented at
Ch 1 Audit Process - Pre-requisites				
1	PR 1	Evaluation of financial reporting framework	Provide appropriateness of financial reporting framework	Office
Ch 2 Audit Process - Pre-engagement				
2	PE 1	Team composition	Assign, direct, supervise, monitor audits	Office
3	PE 2	Ethical declaration	Auditors comply with the ethical requirements	Office
4	PE 3	Record of activities	Budgeted Vs actual time for audit processes	Office
5	PE 4	Engagement letter	Understanding roles and responsibilities	Office
Ch 3 Audit Process – Audit Planning				
6	AP 1	Overall Audit Strategy	Overall audit plan from FS perspective	Office
7	AP 2	Audit plan	Outline nature, timing and extent of audit	Office & Field
Ch 4 Audit Process – Audit Execution				
8	AE 1	Audit authorisation letter	Legal authority to represent the AG	Field
9	AE 2	Entry meeting minutes	Discussing roles and initiating audit	Field
10	AE 3	Test of controls	To determine the extent of reliance on controls	Field
11	AE 4	Sampling	To select items to be tested for audit assertions	Field
12	AE 5	Substantive procedures	Test of detail for obtaining evidenced	Field
13	AE 6	Other procedures	Procedures required under standards	Field
14	AE 7	Written representation	Auditee’s confirmation to its responsibilities	Field
15	AE 8	Exit meeting minutes	To discuss audit observations	Field
Ch 5 Audit Process – Audit Reporting				
16	AR 1	Supervisor review	To assess that given standard procedures are complied	Office/Field
17	AR 2	Preliminary audit report	Formally convey audit findings	Field
18	AR 3	Audit’s report (opinion)	Express opinion on financial statements	Office
Ch 6 Audit Process – Audit Follow-up				
19	AF 1	Audit Follow-up	To follow up on audit findings, past and present	Office/ Field
Ch 7 Audit Process – Quality Control				
20	QC 1	Quality control questionnaire	Ensure that quality is maintained in audit	Office

1.4. Common Audit Activities

The common activities in audit process are Documentation and Review depicted as follows:



1.4.1. Documenting the audit

Auditors should prepare audit documentation that is sufficiently detailed to provide a clear understanding of the work performed, evidence obtained, and conclusions reached. Audit documentation should include an audit strategy and audit plan. It should record the procedures performed, evidence obtained, and support communicated results of the audit²⁰.

Documentation should be sufficiently detailed to enable an experienced auditor, with no prior knowledge of the audit, to understand

- the nature, timing, scope and results of the procedures performed to comply with the ISSAIs and applicable legal and regulatory requirements
- the results of the audit procedures performed, and the audit evidence obtained; and
- Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.²¹

²⁰ ISSAI 100.40

²¹ ISSAI 2230.8

Nature of audit documentation

Audit documentation may be recorded manually, electronically or on other media²². Electronic documentation may be created, generated or maintained through using audit management system, a spreadsheet, and scanned documents or in picture form.

Audit documentation includes working papers compiled by auditors containing audit programmes, analyses, issues memoranda, summaries of significant matters, letters of confirmation and representation, checklists, and correspondences (including e-mails) concerning significant matters. In addition, audit documentation may include abstracts or copies of the auditee's records, for example, significant and specific contracts and agreements.

Types of audit documentation

Audit documentation either relates solely to the current year or it may be of a more permanent nature.

The audit file for the current year should include all the working papers and supporting evidence relating to the current year's audit objectives. There might be working papers and supporting evidence which are applicable for more than one financial year. In such cases, it may be appropriate to retain them in the current audit file, placing a copy in the previous year's current file each time it is carried forward. An example of this could be the system descriptions that may not change from one year to another.

The permanent file contains information of continuing nature about the auditee's operations, relevant legal and regulatory frameworks, accounting systems and other features (longer term contracts / agreements) that are important to the conduct of the audit. The contents of the permanent file should be reviewed at every audit and updated to show the latest position

Purpose of audit documentation

The purpose of audit documentation is to provide a record of how the objectives of an audit assignment were achieved and how the audit was planned and performed in accordance with NGAS and applicable legal and regulatory requirements. The audit documentation intends to:

- Assist auditors to plan and perform the audit;
- Assist in discharging supervision and review responsibilities;
- Enable the audit team to be accountable for its work;
- Retain a record of matters of continuing significance to future audits;
- Enable the conduct of quality control reviews; and
- Enable the conduct of external quality assurance reviews in accordance with applicable legal, regulatory or other requirements.

²² ISSAI 2230.A3

Contents of audit documentation (working papers) and audit evidence

Regarding the form and content of working papers, they should be sufficiently complete and detailed to provide an overall understanding of the audit. Working papers should contain at least the following information:

- Auditee's name, audit period, person preparing and reviewing the working paper, and respective dates for preparation and review;
- The work performed, for example a description of the audit procedure or review executed;
- The source of the sample of information that was used to perform the audit procedure;
- A list of the transactions that were selected to be audited;
- Document numbers, dates, names, reference numbers, etc.;
- The value or amount of the sample-selected and coverage obtained;
- Results of the procedures performed;
- Conclusion on the work performed based on the work performed and audit evidences;
- Basis used when using professional judgement and conclusions reached;
- Indication of the purpose of photocopied or scanned documents; and
- References to other working papers or documents.

Documenting audit findings and communicating with those charged with governance

Audit findings, exceptions or queries should be documented as soon as discovered. These findings are communicated to the auditee through the following available means:

- Audit queries (memos) - are a more informal means of communication. These queries are sent via the designated officer to the office where the queries reside. This way management has an opportunity to give timely feedback or additional information. There is no restriction on the number for sending queries, but it is advised to avoid sending endless numbers of individual queries. Rather the team leader can collect and send them in batches. Such arrangements should be communicated and agreed to with the auditee;
- Preliminary Audit Report (PAR) - is normally issued at the end of the engagement, summarising all unresolved findings previously raised in queries (memos) and any new issues not yet raised. Management is requested to comment on the findings raised in the PAR; and
- Auditor's report – is the opinion expressed on the financial statement.

The final audit file

The auditor should assemble the audit documentation in an audit file and complete the administrative process of assembling the final audit file on a timely basis after the date of the auditor's report. The audit file contains audit documentation relating to a specific audit. After the assembly of the final audit file has been completed, the auditor shall not delete or discard audit documentation of any nature before the end of its retention period.²³

²³ ISSAI 2230.14-16

Cross-referencing

All working papers documentation placed in the supporting files should have individual reference numbers. The final audited financial statements where applicable should be referenced. It is important that the audit findings are referenced to the source documents.

The following documentation can be regarded as audit evidence:

- Original source documents (payment advices, invoices, tender documents and vouchers of the auditee); and
- Schedules / working papers completed by the auditors such as a summary listing of selected transactions for testing included in the work done by the auditor, stating and explaining the conclusions that were drawn.

Document retention and confidentiality

Audit files should be retained for the period of retention required by relevant law of Nepal or otherwise decided by the Auditor General but not less than 5 years from the date of the audit report.

Each directorate needs to observe any legislative requirements for confidentiality of information and balance this requirement with the provisions of transparency which require professional judgment. When requests are made by third parties relating to audit documentation, the responsible auditor should normally consult the competent authority before releasing any information. Legislation may grant access to audit correspondence, for example where electronic or other post journals are open to public scrutiny. Documentation which is of confidential nature should be identified and treated as such.

Confidentiality and transparency requirements are also subject to the provisions of OAGN Code of Ethics.²⁴

Audit using NAMS

- ▶ Documentation while using NAMS shall be done within the NAMS itself, to the extent possible, except where formally signed documents have to be prepared and retained. In such cases also scanned copy such documentation will have to be uploaded in NAMS. NAMS also has features to upload external documents for receiving audit risk related information, media reports, recording audit process, evidences, auditee related information and auditees' responses on the audit observation for follow-up purpose.

1.4.2. Audit Review Process

The review process has been divided into the following levels (please also refer to the audit process for recommended review levels for the different phases and working papers):

²⁴ OAGN Code of Ethics

- First level – lowest level of review, e.g. done at field level by the team leader;
- Second level – reviews done by the supervisor;
- Third level – review at the highest level and this include review by the person who has been designated by the AG to conduct such review.

All three levels of review should consider the following fundamental issues when reviewing an audit file:

- All mandatory procedural steps and working papers have been adequately completed, signed (or signed off) by preparer and reviewer, dated and cross-referenced. When a working paper of procedural steps is omitted, adequate reasons are supplied;
- The audited financial statements (and other relevant audited information) have been identified and clearly linked to the audit through the working papers;
- Knowledge of the auditee and its environment obtained is adequate to inform the auditors' decision relating to the audit approach;
 - Conclusions were adequately drawn and supported by appropriate and sufficient audit evidence;
 - Significant deviations from the overall audit plan and any changes in the scope of the audit have been documented;
 - All significant professional judgements made have been documented and are supported by appropriate audit evidence;
 - The audit was conducted in accordance with the relevant audit approach, guidelines and other directives;
- All significant audit matters have been resolved or have been appropriately reported to management in the preliminary audit report / management letter as well as in the auditor's report;
 - The work performed and results obtained have been adequately documented;
 - Based on the underlying audit work and findings the correct audit conclusion has been reached; and
 - Reported findings are supported by adequate and sufficient audit evidence.

First level review

- Adequate and sufficient completion of working papers/processes including clear and understandable language;
- Consistency of documented information and decisions made between different working papers/processes;
- Significant decisions made and audit evidence supporting decisions and findings;
- The planning of the audit, balancing audit risk, tests of controls and substantive tests performed, evaluating the sample sizes, conclusions, PAR/management letter issues, audit findings (exceptions), auditor's report issues, etc.; and
- Inspecting the audit procedures performed and ensuring that all the assertions were addressed.

Second level review

- The second level of review is almost as detailed as the first, but some reliance can be placed on the review work already performed.
- The second reviewer will still concentrate on detailed work, but to a lesser extent. Focus will be placed on documentation of key working papers, including as a minimum:
 - Pre-engagement working papers, including the engagement letter;
 - Links between the audited financial statements and the working papers;
 - Overall audit plan, including significant risk areas and audit approach;
 - Appropriateness of the nature and extent of audit work performed;
 - Audit summary memorandums;
 - Audit differences;
 - Audit conclusions are backed by adequate audit evidence supporting the findings; and
- Auditor's report with supporting audit evidence for the findings.
- The second reviewer should also review the work performed by the first reviewer.

Third level review

- Work performed by the second-level reviewer;
- Appropriate and sufficient audit evidence exists to support the audit findings;
- Issues correctly raised in the PAR/management letter and auditor's report;
- Compare the work performed with the overall audit strategy to ensure that all risk areas have been addressed and deviations documented with reasons;
- Aspects relating to finalising the audit; and
- The audited financial statements, disclosure notes, aiming to ensure that the audit sufficiently covered all significant balances and risk areas.

Documenting reviews

Working papers/processes must be signed off and dated by the person who has "prepared" and the one who has "reviewed" the audit work. When a review is complete, the reviewer should provide comments on the review sheet. Review shall always be undertaken by a person of higher level than the person performing the work.

Audit using NAMS

- ▶ The entire review process for quality control is undertaken through NAMS. i) The concurrent review of each process / working paper in NAMS by the team leader ii) Supervisory review is also done through NAMS as supervisor has access to view the audit process on real time basis iii) The independent review of the audit also can be undertaken by such reviewer by obtaining NAMS access authority from OAGN.

1.5. Note for reviewers

By the act of signing off a working paper at every stage of audit, the reviewer is attesting that following has been ensured:

- All relevant information for the purposes of concluding on the stage of the audit process has been duly considered; and
- Reviewer agree with the conclusions made on each audit process / working paper and all coaching notes have been addressed appropriately.

Should the reviewer require additional material to ensure compliance with NGAS, the reviewer need to refer to the relevant NGAS. Reviewer additionally may also refer to IFPP Framework that includes INTOSAI principle / standard/guidance.

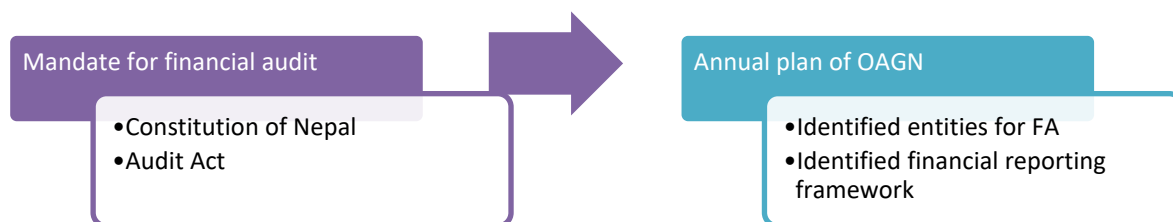
1.6. Compliance with international standards

This manual ensures compliance with the Nepal Government Auditing Standards (NGAS). These standards are substantially aligned with INTOSAI Framework of Professional Pronouncements (IFPP) that include INTOSAI Principles and INTOSAI Standards (ISSAIs).

1.7. Body of knowledge

This manual borrows body of knowledge from different sources relating to Supreme Audit Institutions mainly from INTOSAI Framework of Professional Pronouncements (IFPP) that include INTOSAI Principles and INTOSAI Standards (ISSAIs), publications of regional SAI organisations such as ASSOSAI and AFROSAI, INTOSAI Development Initiatives (IDI). Relevant legal provisions as applicable in Nepal are also included in the manuals, in force as on the date of publication.

2. Audit Prerequisites



2.1. Objectives

The objective of this process is to build financial audits from the OAGN’s Public audit restructuring framework and the OAGN’s Annual audit Plan.

The two prerequisites of financial audit include which is assessed and / or documented at this stage. In public audit these are generally established by the law.

- the management’s acknowledgement for the preparation of financial statements and internal control
- the appropriateness of the financial reporting framework

2.2. Working papers and applicable standards

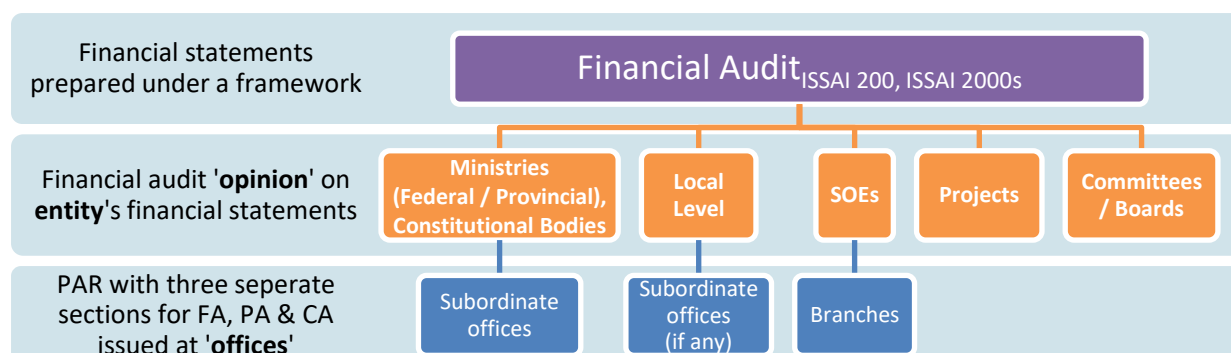
PR 1 Evaluation of financial reporting framework

•ISSAI 200.9: 200.16

2.3. Steps / Process

2.3.1. OAGN Public Audit Restructuring Framework and Financial Audit

Financial Audit as conceived in the OAGN’s PARF can be summarised as follows



OAGN PARF requires that, while conducting audit for the purpose of expression of opinion on the entity's financial statements auditors are also required to audit the compliance issues and performance issues in addition to financial issues at 'offices' level (underlying hierarchies). Auditors are required to report these audit issues for each of the offices in PAR in three distinct sections namely, financial, performance and compliance.

2.3.2. Risk based classification of offices in Annual Audit Plan

Audits of the financial statements are mandatory in accordance with legal requirements and the auditing standards. To provide reasonable assurance on the financial statements, auditors need to obtain sufficient and appropriate audit evidences. Therefore, after identification of the financial statements, the underlying hierarchies ('offices') are classified according to the risk profile to conduct suitable audit procedures.

Such offices include subordinate offices or underlying hierarchies (or branch offices in some cases) of the entity. These offices are subjected to risk assessment to be graded at OAGN's annual audit planning stage. Such grading of offices shall result in determination of the type of the audit plan allocated to the offices including allocation of resources and time. Offices are categorised for detailed or minimal audit procedures subject to their risk grading. *(The detail of risk-based classification, including application of risk parameters and allocation of different types of audit plan will be as per OAGN Risk Based Audit Planning Framework.)*

2.3.3. Annual Audit Plan (AAP) of OAGN

Planning is done at various levels and is a critical function in ensuring achieving OAGN's goals and objectives. Plans include a Strategic Plan, Annual Audit Plan (AAP), other functional plans, plans for the individual audits and work programmes (checklists). Rationale for AAP are:

- OAGN has wide legal mandate to audit federal, provincial and local government, public enterprises, and funded projects and conduct other special audit assignments.
- OAGN needs to be responsive to changing environments and emerging risks²⁵
 - be aware of the expectations of stakeholders and respond to these, as appropriate, in a timely manner and without compromising their independence;
 - in developing their work programme, respond as appropriate to the key issues affecting society;
 - evaluate changing and emerging risks in the audit environment and respond to these in a timely manner, for example by promoting mechanisms to address financial impropriety, fraud and corruption; and
 - Ensure that stakeholders' expectations and emerging risks are factored into strategic, business and audit plans, as appropriate.

The annual overall audit-planning process should enable OAGN to do the following:

- Compile the list of audits to be performed during the year (audit coverage);
- Assign audits considering available resources and the need to rotate audits;
- Identify audits to be performed in-house or to be contracted outside;
- List offices where OAGN can apply different audit methodologies depending on the

²⁵ ISSAI-P12

- risk profiles (e.g. Identify high-risk offices which need in-depth audit and reviews);
- Allocate time for the audits by setting the audit calendar for the year;
- Develop strategies to clear audit backlogs; and
- Identify subject matter for performance and compliance audits. And also, plan for audits of themes or focus areas including environmental, procurement, forensic or investigative and special audits, including those based on legislative requests.

Implementation of the plan:

The biggest challenge of any plan is to demonstrate how it is implemented. What needs to be done is usually well defined in these plans but there is often a need for further guidance on how to make the provisions operational. Plans at directorate/entity level or work-plans (checklists) should include more detailed on how each activity is going to be carried out.

Audit using NAMS

- ▶ Risk profiling, risk grading and risk-based classification of the offices shall have to be done through NAMS based on the auditee information and OAGN inputs. This will be part of OAGN annual audit plan. Additional text paragraphs shall go into the system as manual inputs and AAP will be generated from NAMS.

2.3.4. Evaluating Financial Reporting Framework (PR 1)

The financial reporting framework is what is adopted by the auditee for the preparation and reporting of the financial statements. The financial reporting framework selected should be acceptable in view of the nature of the entity and the objective of the financial statements. In most cases, it is generally required by the law or regulation.

An acceptable financial reporting framework is a pre-condition for the financial audit²⁶. Auditors should identify and evaluate the relevant financial reporting framework the auditee has used to prepare financial statements. The evaluation should conclude whether the financial reporting framework is acceptable for preparing the financial statements as the form of audit opinion expressed by the auditor will also depend upon the reporting framework

At annual audit planning stage inventory of entities preparing financial statements in accordance with applicable reporting frameworks are identified. Financial reporting framework, as applicable in Nepal, may be NPSASs, NFRSs or contractual covenants²⁷.

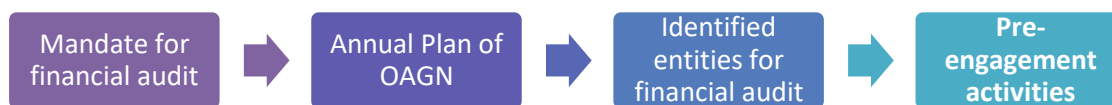
Audit using NAMS

- ▶ Evaluation of financial reporting framework will have to be completed as an input in NAMS for the auditor to conclude that the entity is required to prepare financial statements in accordance with applicable framework. **However, this shall not preclude the conduct of the financial audit based on the available financial information of office(s) even when the entity fails to prepare financial statement in accordance with applicable finance reporting framework.**

²⁶ ISSAI 200.9

²⁷ ISSAI 200.16

3. Audit Pre-Engagement



3.1. Objectives

Auditors are required to undertake pre-engagement activities²⁸ at the beginning of the current audit engagement to assist the auditor in identifying and evaluate events or circumstances that may adversely affect the auditor’s ability to plan and perform the audit engagement. The auditor shall undertake the following activities at the beginning of the current audit engagement:

- a) Evaluating compliance with relevant ethical requirements, including independence; and
- b) Establishing an understanding of the terms of the engagement.

3.2. Working papers and applicable standards

PE 1 Team Composition	<ul style="list-style-type: none">•ISSAI 100.39•ISSAI 2220.14;
PE 2 Ethical Declaration	<ul style="list-style-type: none">•ISSAI 130; ISSAI 100.36; OAGN Code of Ethics;•ISSAI 2300.6(b); ISSAI 2220.9-11; ISSAI 2200.14
PE 3 Record of Activities	
PE 4 Engagement Letter	<ul style="list-style-type: none">•ISSAI 200.30•ISSAI 2210; ISSAI 2300.6(c)

3.3. Audit Steps

3.3.1. Step 1 Team composition (PE 1)

By this stage, the OAGN will have details of the team which is supposed to undertake the audit. This comes from the annual audit plan. The designated person responsible for the audit should form the audit team, including with external experts (if required) and ensure that they collectively have the competence and capabilities to²⁹:

- a) Carry out the audit in accordance with the relevant standards and the applicable legal and regulatory requirements; and
- b) Enable the audit team to issue a report that is appropriate in the circumstances.

²⁸ ISSAI 2300.6

²⁹ ISSAI 100.39; ISSAI 2220.14

The names of the team allocated to the audit and their respective competencies (experience) in relation to the specific audit shall be recorded. Any gap in relation to required capacities such as experience and expertise can be mitigated by way of the following:

- Self-study of manuals, standards, legislative or accounting frameworks for team members who are not familiar with these;
- Assigning coaching responsibilities to more senior team members;
- More frequent reviews of work performed; and
- Providing short courses on specific problem areas; this could even mean going through the financial reporting framework together as a team and resolving misunderstandings.

Capacity of the audit team should be documented and signed by the person responsible for the audit. OAGN auditors are expected to possess appropriate competence to discharge the terms of the audit mandate under the legislations³⁰.

[Note: OAGN auditors are recruited through the public service regulations and are assumed and expected to possess knowledge and skills required for the audits. Disparity of competency within the team generally will be the extent of experience in audit of the particular sector.]

Audit using NAMS

- ▶ Team composition shall have to be completed in NAMS by the responsible official for the entity and the underlying offices that will be audited during the audit cycle. This includes assigning individuals to the audit of entity and the offices. Positions such as audit supervisor, audit team leader and audit team member shall be allocated to individuals. This provides respective individuals access to the working panes in NAMS.

3.3.2. Step 2 Ethical declaration (PE 2)

OAGN has Code of Ethics³¹ that is aligned with ISSAI 130, Code of Ethics. The code is designed to prevent internal conflicts of interest and corruption and ensure the transparency and legality of their operations, as well as actively promoting ethical behaviour throughout the organisation. The ethical requirements cover obligations of auditors, other OAGN staff and others working on behalf of OAGN. The ethical principles in the code are:

- Integrity
- Independence and Objectivity
- Competence
- Professional behaviour
- Confidentiality and Transparency

All auditors, other staff and other person(s) working on behalf of OAGN need to comply with the ethical codes and need to give compliance declaration in the manner prescribed in OAGN Code of Ethics³².

Audit using NAMS

³⁰ ISSAI 2220.A13

³¹ OAGN Code of Ethics, 2021 and ISSAI 130

³² ISSAI 2200.14

- ▶ The templates for ethical declaration as per OAGN Code of Ethics resides in NAMS. Auditors shall have to first confirm to its compliance by way of declaration before further access is granted to conduct the audit in the system. These declarations shall be entity and office specific where the auditors shall be involved for the audit.

3.3.3. Step 3 Record of activities (PE 3)

The Record of activities should be used to record the planned budgeted hours (or days) for all the activities which relate, and the budgeted time allocated to each audit team. The budget day/date may be estimated or based on actual time spent on the audit activities in the previous year. The budget should be reviewed from time to time to reflect any changes to estimates, for example after the risk assessment increased in number of days required.

Throughout the audit the actual days taken shall be documented. If used as intended, this working paper will allow management to monitor the progress of audit work and take corrective action where necessary and provide insight for time planning in the subsequent audit cycles. Reasons for variances between actual and budgeted hours should also be documented.

Audit using NAMS

- ▶ Budgeted time or planned dates for activities indicated in the record are to be given as inputs. NAMS shall auto populate the actual days and dates when the respective process is completed and signed off. The variance is then auto calculated.

3.3.4. Step 4 Engagement Letter (PE 4)

The engagement letter is used to communicate with the auditee management regarding the objective and scope of the financial audit and the OAGN's obligations, these as generally established by the law. The engagement letter is signed by both the parties to evidence the agreement and mutual understanding on the issues communicated. Auditee and auditor agree on the engagement letter before commencing audit to avoid any misunderstandings.

The audit engagement letter shall be in the form of written agreement and shall include³³:

- The objective and scope of the audit of the financial statements;
- The responsibilities of the auditor and that of the management;
- Identification of the applicable financial reporting framework for the preparation of the financial statements; and
- The expected form and content of any reports to be issued by the auditor; and
- A statement that there may be circumstances in which a report may differ from its expected form and content.
- Where the legal provisions and mandate detail the terms of engagement and prescribes responsibilities of the management, they may not be included in a written agreement except for the fact that such laws and regulations apply, and management understands and acknowledges its responsibilities³⁴.

³³ ISSAI 2210.10

³⁴ ISSAI 2210.11-12

The terms of a financial audit engagements to be undertaken by OAGN is mandated by legislation. However, OAGN should reach a common understanding with management or those charged with governance about the respective roles and responsibilities for each audit engagement, preferably in writing³⁵. Even when law and regulation prescribe in sufficient detail the terms of engagement OAGN should consider the benefits in issuing a fuller audit engagement letter³⁶. Engagement shall be agreed with the auditee management or those charged with governance who are responsible for preparation of the financial statements in accordance with the applicable reporting framework³⁷.

Management shall acknowledge and understand its responsibility for preparation of financial statement in accordance with the applicable reporting framework and for such internal control necessary for such preparation that they are free from material misstatements whether due to fraud or error³⁸.

Audit using NAMS

- ▶ The engagement letter templates, one for the office and one for the entity, reside in the NAMS. Auditor can do appropriate edits as applicable and, print (at least) two copies, one for OAGN and one for the auditee. The signed copy of the engagement letter has to be uploaded in NAMS for this process to be completed.

³⁵ ISSAI 200.30; ISSAI 2210.A29

³⁶ ISSAI 2210.A29

³⁷ ISSAI 2210.6(b)

³⁸ ISSAI 2210.6(b)

4. Audit Planning

After the pre-engagement activities have been completed, the audit team needs to prepare the overall audit strategy and the operational plan (audit plan).



4.1. Objectives

The auditor should plan the audit to ensure that it is conducted in an effective and efficient manner, by determining the scope, timing and approach and the practical steps to be taken³⁹. Planning an audit involves establishing the overall audit strategy for the engagement and developing an audit plan. Adequate planning benefits the audit of financial statements in several ways, including the following:⁴⁰

- Helping the auditor to devote appropriate attention to important areas of the audit.
- Helping the auditor identify and resolve potential problems on a timely basis.
- Helping the auditor properly organise and manage the audit engagement so that it is performed in an effective and efficient manner.
- Assisting in proper assignment of work to the audit team members.
- Facilitating direction and supervision of engagement team and review of their work.
- Assisting, in coordination of work done by auditors of components and experts.

4.2. Working papers and applicable standards

AP 1 Overall Audit Strategy

- ISSAI 100.45-48; ISSAI 200.33-40, 44-45, 49-53
- ISSAI 2300.8; ISSAI 2300.12(a); ISSAI 2240; ISSAI 2250; ISSAI 2315; ISSAI 2320; ISSAI 2520

AP 2 Audit Plan

- ISSAI 100.48; ISSAI 200.32, 41-43
- ISSAI 2300.8; ISSAI 2300.12(b); ISSAI 2330

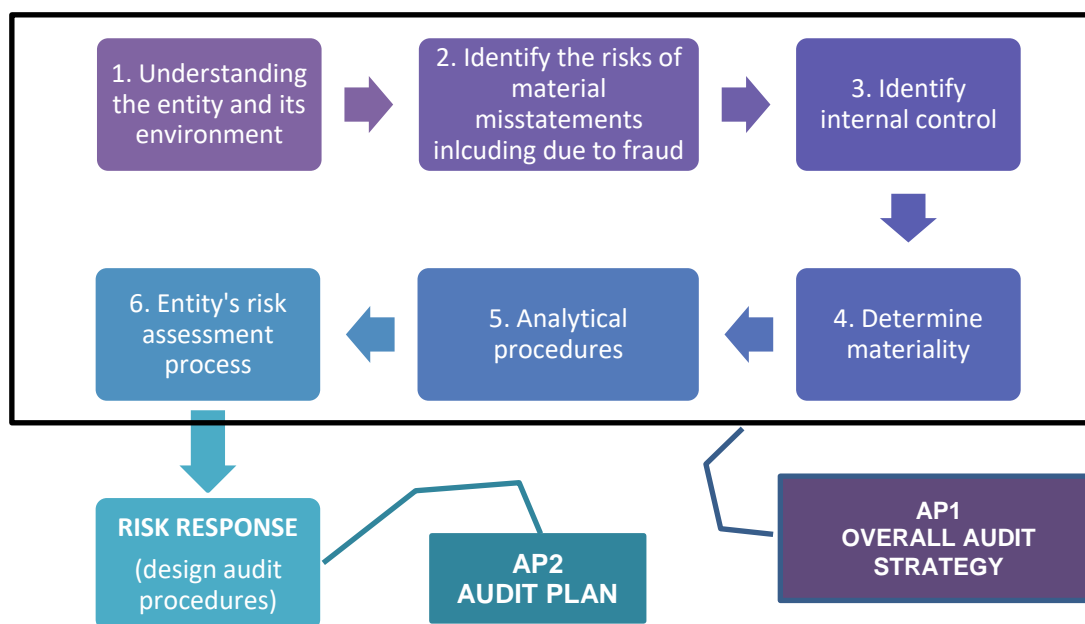
³⁹ ISSAI 200.31; ISSAI 2300.4

⁴⁰ ISSAI 2300.2

In relation to audit planning process the auditor shall include in the audit documentation⁴¹:

- a) The overall audit strategy;
- b) The audit plan; and
- c) Any significant changes made during the audit engagement to the overall audit strategy or the audit plan, and the reasons for such changes.

Audit planning process flow will be as follows



4.3. Audit Steps

4.3.1. Step 1 Overall Audit Strategy (AP 1) – Entity Audit Plan

The output of this stage is the overall audit strategy (Entity Audit Plan), which is prepared at the entity level. Entity level indicates the level where the financial statements are prepared under applicable financial reporting framework.

i. Understanding the entity and its environment

- a) Obtain and document general information about the entity and management structure⁴²
 - type of entity that is audited;
 - addresses, contact person(s);
 - management structure, those charged with governance (key management personnel);
 - Geographic locations.

⁴¹ ISSAI 2300.12

⁴² ISSAI 2315.11

b) Understand the legal framework of the entity⁴³

- laws or regulations which have a direct effect on the determination of material amounts and disclosures in the financial statements e.g. such as tax and pension;
- Laws that may not directly affect the determination of amounts in the financial statements but are fundamental to the operations of the entity and its ability to continue its operations, or to avoid material penalties.

c) Understand the operational environment of the entity

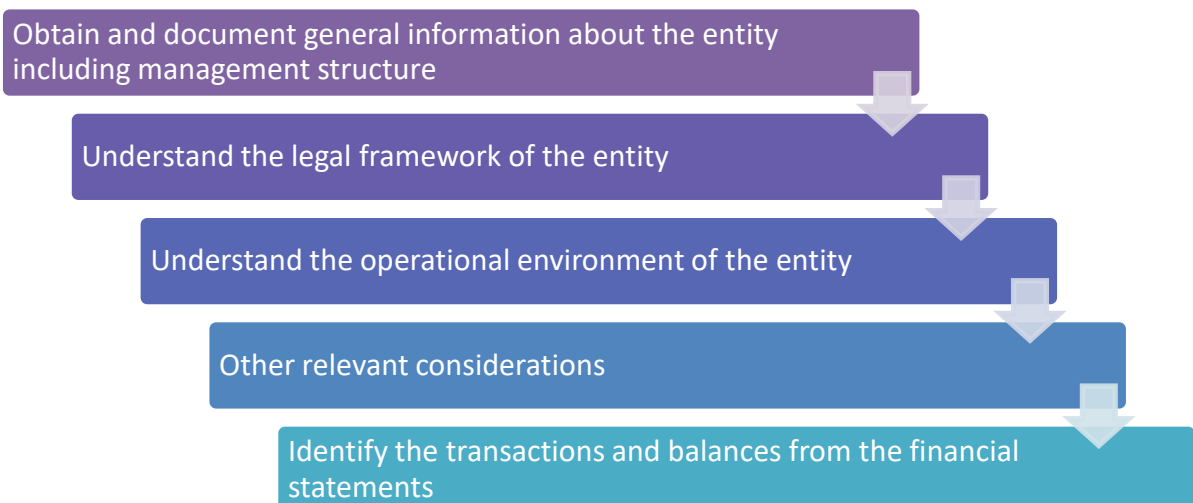
- mandate of the entity (including sector / industry);
- entity's objectives and strategies;
- New programme areas, budget constraints.

d) Other relevant considerations

- litigations and claims;
- service organisations, outsourced functions⁴⁴;
- related parties⁴⁵;
- Understanding the work of an expert⁴⁶.

e) Identify the transactions and balances from the financial statements

- identify audit components;
- identify material financial figures from sources like budgets and interim financial reports;
- Identify balances of underlying financial records that can easily be traced to the final, audited financial statements.



⁴³ ISSAI 2250

⁴⁴ ISSAI 2402

⁴⁵ ISSAI 2550

⁴⁶ ISSAI 2620

Audit using NAMS

- ▶ Auditors should work on NAMS to prepare Overall Audit Strategy (Entity Audit Plan) for each entity whose financial statements are to be audited, including for those entities which are required to prepare such financial statements but not preparing. The templates and processes available in NAMS have to be filled in or completed. The previous year's Overall Audit Strategy (Entity Audit Plan) can be pulled (replicated), updated and reused in NAMS for subsequent years.

ii. Identify risks of material misstatements including those due to fraud

A Risk of Material Misstatements (ROMM)

The auditor shall identify and assess the risks of material misstatement to provide a basis for designing and performing further audit procedures at two levels⁴⁷:

1. at the financial statement level

- relate more pervasively to the financial statements and not specific to a class of transaction or account balances – management override of internal controls
- deficient control environment
- concern about integrity of the management and doubt on availability of sufficient and appropriate audit evidences
- At the assertion level for classes of transactions, account balances, and disclosures (COTABD) – where risks can be linked to an audit component. Common assertions used by auditors are as follows

Class of transactions

- occurrence
- cut-off
- completeness
- accuracy
- classification
- presentation

Account Balances

- existence
- right and obligation
- completeness
- accuracy
- classification
- presentation

Risks of material misstatement may be greater where there is⁴⁸:

- Greater management intervention to specify the accounting treatment.
- Greater manual intervention for data collection and processing.
- Complex calculations or accounting principles.
- non-routine transactions, which may make it difficult to implement effective controls
- significant judgmental matters that require the development of accounting estimates

Audit risk is referred to as the risk of auditor not being able to express appropriate opinion on the financial statements. Audit risk is contributed by inherent risk, control risk and detection risk. Auditor do not have control over inherent risk and control risks therefore assesses those risks for possible impact on audit risk and manage the detection risk to bring the audit risk to an acceptable level.

⁴⁷ ISSAI 2315.25, A122-A130

⁴⁸ ISSAI 2315.28, A140-142

Audit Risk (AR) = Inherent Risk (IR) x Control Risk (CR) x Detection Risk (DR)

	INHERENT RISK	CONTROL RISK	DETECTION RISK
DEFINITION	The susceptibility if a class of transaction, account balance or disclosure to a misstatement that could be material, individually or when aggregated, assuming that there were no related internal controls.	The risk that a material misstatement could occur and go undetected by the entity's internal control system.	The risk that an auditor's audit procedures will not detect a misstatement, existing in an account balance or class of transaction, that could be material, individually or when aggregated.
AUDITOR'S ROLE AND RESPONSIBILITY	Auditor can only assess these risks as these are due to nature of the entity and transactions	Auditor can only assess these as the controls are designed and implemented by the entity	Auditor can manipulate detection risk by altering nature, extent and timing of the audit

B Audit Risk due to fraud

Misstatements in the financial statements can arise from either fraud or error. The distinction is that fraud is caused intentionally while an error is unintentional. It is the responsibility of management and those charged with governance to implement internal controls to prevent and detect fraud⁴⁹.

Objectives of the auditor in auditing fraud

- To identify and assess the risks of material misstatement due to fraud at financial statement level and at assertion level⁵⁰;
- To obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud; and
- To design and implement appropriate responses to the identified risk⁵¹.

Auditors need to apply professional scepticism throughout the audit. Recognise that fraud could exist⁵², and that internal controls effective for discovering errors may not be effective for discovering fraud. There are two types of fraud – fraudulent financial reporting and misappropriation of assets.

Auditors should obtain evidence regarding:

- management's assessment of the risk of fraud;
- management's process for identifying and responding to the risks of fraud in the entity, including any specific transactions or account balances where risk of fraud is likely to exist;

⁴⁹ ISSAI 200.45

⁵⁰ ISSAI 2240.26

⁵¹ ISSAI 2240.29

⁵² ISSAI 2240.13-15; ISSAI 200.44

- any actual, suspected or alleged fraud affecting the entity identified and whether those charged with governance or selected officials have knowledge of this;
- the internal controls established by management to mitigate the risk of fraud, processes for identifying and responding to the risks of fraud;
- monitoring by those charged with governance;
- whether there are conditions for management override of the controls;
- whether unusual or unexpected relationships that have been identified in performing analytical procedures, may indicate risks of material misstatement due to fraud; and
- Whether any information obtained throughout the audit indicates to fraud risk factor.

Then auditor should red flag (indicate fraud risks) in a particular audit area or component. However due to inherent limitation of audit (as discussed in 1.1.7) frauds still may not be detected by normal audit procedures.

Audit using NAMS

- ▶ Auditors identifies and analyses possible risk of misstatements including risk of fraud in NAMS. The risk assessment will contribute towards auditors focusing on risky areas while developing risk response or the audit plan in NAMS. Initially high-level risks are identified and recommended for AAP preparation. Based on the risk approved in AAP additional risks (generally sector specific) can be added at directorate level while preparing entity audit plan. Subsequent to the entity audit plan risk (particular office specific risks) can be added while preparing office level plan.

iii. Identify internal controls

Auditors should understand the audited entity's internal controls relevant to the audit⁵³. Auditors should evaluate the design and implementation of the controls. Internal controls are adequately designed when they can prevent or detect misstatements and errors. If controls are not appropriately designed, auditor should not consider their implementation, but report the ineffective design to management⁵⁴.

Internal control consists of the following components⁵⁵:

- The control environment;
- The entity's risk assessment process;
- The information system, including relevant to financial reporting and communication;
- Control activities; and
- Monitoring of controls.

An understanding of internal control assists the auditor in identifying types of potential misstatements and factors that affect the risks of material misstatement, and in designing the nature, timing and extent of further audit procedures.

⁵³ ISSAI 2315.12

⁵⁴ Audit Act 2075, Sec 8

⁵⁵ ISSAI 2315.14-24, A59 and COSO Framework

Considering the information technology (IT) environment

IT poses specific risks to an entity's internal control⁵⁶. As part of understanding the operations of the auditee there is also a need to evaluate the IT environment.

- Identify major application systems involved in processing financial information.
- Understand how different financial and non-financial systems interlink.

Internal audit

The internal audit function is used by management to examine, evaluate and monitor the adequacy and effectiveness of the auditee's internal controls. Internal audit forms part of the control environment of the auditee and therefore it is important to

- Evaluate whether the work done by the internal auditors is adequate for the auditor to rely on for purposes of the audit; and
- If yes, determine the extent of planned reliance on the work of the internal auditors. The effect of this reliance on the nature, timing or extent of the auditor's work should also be assessed.

The audit work may be reduced by placing reliance on the work of internal audit.

Audit using NAMS

- ▶ Controls in public sector are generally derived from laws, regulations and similar authorities. Auditors shall record their assessment of control in NAMS along with their assessment of internal audit and possible reliance that shall be made on internal control and Internal Audit.

iv. Determine materiality

Materiality is relevant in all audits. A matter can be judged material if knowledge of it would be likely to influence the decisions of the intended users. Determining materiality is a matter of professional judgement and depends on the auditor's interpretation of the users' needs⁵⁷.

Auditors should consider materiality throughout the audit process.⁵⁸

The auditor should apply the concept of materiality, both in quantitative (by amount) and when relevant in qualitative (by nature) terms, when planning and performing the audit, evaluating the findings and reporting on the results. When planning the audit, the auditor should determine an overall level of materiality for the financial statements as a whole, taking account of the level of misstatement which could influence the decisions of the users⁵⁹.

The auditor should then reduce that level of materiality when establishing the audit work to be undertaken, in order to reduce to an acceptable level, the risk that the aggregate of

⁵⁶ ISSAI 2315.A64

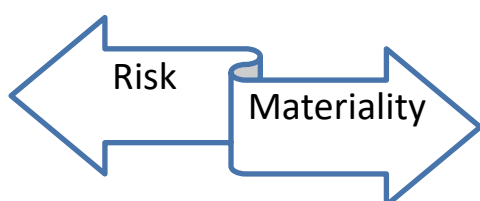
⁵⁷ ISSAI 2320.4

⁵⁸ ISSAI 100.41

⁵⁹ ISSAI 200.34

undetected and uncorrected misstatements do not exceed overall materiality. This lower materiality level (sometimes known as performance materiality) should be used to help determine the nature, timing and extent of audit procedures, and to assess the results of those procedures⁶⁰.

Risk and materiality have inverse relationship, higher the risk lower will be the materiality level and vice-versa.



A. Overall (Planning) Materiality

A.1 Materiality for financial statements as a whole

A percentage is often applied to a chosen benchmark as a starting point in determining materiality for the financial statements as a whole⁶¹. Benchmarks can be as follows

- In public sector it can be % of total budget or total expenditure or total revenue. Alternatively, net expenditure or net revenue may be appropriate⁶².
- For SOEs, it can be % of revenue or total assets or equity or profit

Determining a percentage to be applied to a chosen benchmark involves the exercise of professional judgment⁶³.

BENCHMARK	AMOUNT (NRS)	% USED	MATERIALITY (NRS)
REVENUE	100,000,000	0.5 %	500,000
REASON FOR USING 0.5 %:			
REASON FOR USING THE BENCHMARK			

Note: % used here is just an example and auditors need to use their professional judgement to determine the %. IDI recommends normal sensitivity range of 0.5% - 2% for planning materiality. *Misstatements higher than NRs 500,000 (as shown above) will be considered a material misstatement in the financial statements.*

A.2 Materiality for particular class of transactions, account balances or disclosures

Auditor has an option to set a separate planning materiality for a particular class of transactions, account balance and disclosures if, in the auditor's judgement the circumstances, risk assessment and the particular issue demands so.

The same principle applies to calculating materiality for particular COTABD. Here, misstatements of lesser amounts than materiality for the financial statements as a whole

⁶⁰ ISSAI 200.35

⁶¹ ISSAI 2320.A4

⁶² ISSAI 2320.A10

⁶³ ISSAI 2320.A8

could reasonably be expected to influence the economic decisions of users

BENCHMARK	AMOUNT (NRS)	% USED	MATERIALITY (NRS)
TRAVEL	10,000,000	0.5%	50,000
PROCUREMENT	50,000,000	0.5%	250,000
REASON FOR USING GIVEN %:			
REASON FOR USING THE BENCHMARK			

Note: % used here is just an example and auditors need to use their professional judgement to determine the %. *Misstatements higher than NRs 50,000 for travel and 250,000 for salary (as shown above) will be considered a material misstatement in the financial statements.*

However, in comparison with materiality for the financial statements as whole, the misstatement may not be material but could still influence the decisions of users of the financial statements; some expense head could be a critical area of expenditure.

B. Performance Materiality

The determination of performance materiality is not a simple mechanical calculation and involves the exercise of professional judgment. It is affected by the auditor's understanding of the entity, updated during the performance of the risk assessment procedures; and the nature and extent of misstatements identified in previous audits and thereby the auditor's expectations in relation to misstatements in the current period⁶⁴. The auditor needs to determine the performance materiality level for the purposes of assessing the risks of material misstatement and determining the nature, timing and extent of further audit procedures.

The performance materiality is set lower than the materiality for financial statements as a whole.

OVERALL MATERIALITY	% USED	MATERIALITY (NRS)
500,000	70%	350,000

Note: IDI recommends performance materiality to be generally 60-80% of the overall materiality. Auditors generally use 70% of overall materiality as performance materiality.

The same principle is applied when determining performance materiality for particular COTABD. This is calculated only if the separate planning materiality is determined for the particular COTABD.

COTABD	OVERALL MATERIALITY	% USED	MATERIALITY (NRS)
TRAVEL	50,000	70%	35,000
PROCUREMENT	250,000	70%	175,000
REASON FOR USING GIVEN %:			

Note: IDI recommends performance materiality to be generally 60-80% of the overall materiality. Auditors generally use 70% of overall materiality as performance materiality.

⁶⁴ ISSAI 2320.A13

Objective of Materiality

Auditors should apply the concept of materiality in an appropriate manner when planning and performing the audit. The objective is to apply the concept of materiality appropriately throughout the audit, especially when:

- i. Identifying the components to be audited (overall planning);
- ii. Determining the nature, timing and extent of audit procedures (detailed planning); and
- iii. Evaluating the effect of misstatements (for reporting).

C. Component (Office) performance materiality

Component (Office) materiality is determined for those components whose financial information will be audited or reviewed as part of the audit of the entity⁶⁵.

In the case of an audit of the financial information of a component, the auditor determines performance materiality at the component level. This is necessary to reduce to an appropriate low level the probability that the aggregate of uncorrected and undetected misstatements in the financial information of the component exceeds component materiality. Component materiality is also used to assess risk of material statements of the financial information of the component and to design further audit procedures in response to assessed risks⁶⁶.

‘Component’ word used in this section means ‘Office’

Entity performance materiality	% USED	COMPONENT (OFFICE) MATERIALITY
350,000		
REASON FOR USING GIVEN %:		

Note: Materiality amount for the individual component (office) shall be determined by the auditor based on the auditor’s judgement which may or may not be the arithmetic proportion of the entity performance materiality.

For the materiality determined for a COTABD, audit team may consider whether there is the necessity of determining component materiality at COTABD level based on professional judgement.

D. Revision of materiality as audit progresses

Materiality for the financial statements as a whole and, if applicable, the materiality level or levels for particular classes of transactions, account balances or disclosures may need to be revised as a result of a change in circumstances that occurred during the audit with new information, or a change in the auditor’s understanding of the entity and its operations as a result of performing further audit procedures⁶⁷.

Audit using NAMS

⁶⁵ ISSAI 2600.A44

⁶⁶ ISSAI 2600.A46

⁶⁷ ISSAI 2320.A14

- ▶ The auditor decides, using judgement, on the benchmark and percentage to be used for determining planning materiality. The quantitative information relating to the entity for benchmark selection will be available in NMAS. The planning materiality is subsequently taken as the basis for determining performance materiality. The % of overall (planning) materiality to be used for performance depends on the associated inherent risks and auditor’s judgement. The performance materiality shall further be disaggregated into office (component) materiality.

E. Application guide: Applying concept of materiality in OAGN’s financial audits

Area	Example(s)	Implication / Use
1. Determine planning materiality		
1.1. Financial Statement as a whole		
<ul style="list-style-type: none"> - Identify and justify benchmark to be used, <ul style="list-style-type: none"> ○ Total revenue or total expenditure or budget in government offices ○ Turnover or Total assets or Profit in SoEs - Determine the percentage to be used by using judgement - PLANNING MATERIALITY FOR FINANCIAL STATEMENT AS A WHOLE IS DERIVED 	<ul style="list-style-type: none"> - Net Revenue is taken for Ministry of Land Management (MoLMCPA) from options: <ul style="list-style-type: none"> ○ Revenue: NPR 20 B ○ Expenditure: NPR 6 B ○ Net Revenue NPR 14 B - Net Expenditure is taken for Ministry of Physical Infrastructure (MoPIT) from options: <ul style="list-style-type: none"> ○ Revenue: NPR 24 B ○ Expenditure: NPR 95 B ○ Net Expenditure 71 B - 0.5% is set as the materiality for financial statement as whole (IDI suggests 0.5-2%) - Planning materiality is derived for both the entities by applying % on the benchmark considered. <ul style="list-style-type: none"> - MoLMCPA – NPR 70 M (0.5% of 14 B) - MoPIT – NPR 355 M (0.5% of 71B) 	<ul style="list-style-type: none"> - Choosing one of the financial statement items as a benchmark (out of available options). - Will help determine materiality after application of this percentage. - This materiality level is used to derive PERFORMANCE MATERIALITY. - This materiality means, only, misstatements whether individually or in aggregate exceeding materiality level shall be considered for having quantitative effect on financial statement opinion. - Qualitative aspect such as frauds or non-compliance shall be considered additionally irrespective of the materiality amount (considered as qualitatively material)
1.2. Performance Materiality is taken as a percentage of the overall materiality (planning materiality)		
<ul style="list-style-type: none"> - Determine percentage 	<ul style="list-style-type: none"> - 60% of overall materiality is set as the performance materiality (IDI suggests 60-80%) - Percentage determined considering inherent and control risk. If: <ul style="list-style-type: none"> High – 80% Medium – 70% Low – 60% - Performance Materiality is set lower than the overall materiality 	<ul style="list-style-type: none"> - Will help determine performance materiality after application of this percentage.

Area	Example(s)	Implication / Use
- PERFORMANCE MATERIALITY	Derive performance materiality: <ul style="list-style-type: none"> - MoLMCPA – NPR 42 M (60% of 70 M) - MoPIT – NPR 213 M (60% of 355 M) 	<ul style="list-style-type: none"> - All areas / issues equal and over the performance materiality level must be subjected under test of detail substantive procedure. - Auditors can still set lower performance materiality considering the qualitative aspects of materiality - Areas / issues less than performance materiality may be subjected to minimum substantive procedure - Used as the basis for deriving component (office) materiality
- COMPONENT (OFFICE) PERFORMANCE MATERIALITY	<p><i>Assuming each office within the ministry is of equal proportion. (in practice proportion of the office to the entity may or may not be used for the benchmark)</i></p> <ul style="list-style-type: none"> - MoLMCPA – NPR 124 K (338 offices) - MoPIT – NPR 1.29 M (165 offices) 	<ul style="list-style-type: none"> - All areas / issues equal and over the component (office) performance materiality level must be subjected under test of detail substantive procedure. - Auditors can still set lower performance materiality considering the qualitative aspects of materiality - Areas / issues less than performance materiality may be subjected to minimum substantive procedure

Materiality may be additionally determined for a particular COTABD

Area	Example(s)	Implication / Use
2. Determining Materiality for COTABD (in specific circumstances)		
2.1. Planning materiality for particular COTABD		
- Identify the particular COTABD <i>(use this if the auditor CHOOSES THE OPTION of determining materiality for individual COTABD considering specific risk and circumstances for the particular issue)</i>	<ul style="list-style-type: none"> - MoLMCPA <ul style="list-style-type: none"> o Travel: NPR 100 M - MoPIT <ul style="list-style-type: none"> o Consultant Payments: NPR 500 M <p>(COTABD as considered essential by the auditor)</p> <p><i>[Additionally, audit may use judgement to determine the materiality level if the amount and percentage is not available or cannot be determined reliably]</i></p>	<ul style="list-style-type: none"> - Auditor considers Travel as risky area for MoLMCPA as there was public grievance reported to OAGN including media report on travel frauds, so wish to set different materiality level than overall materiality - Auditor considers Consultant payments as risky area for MoPIT and other ministries as there was serious audit observations in the previous year(s) on consultant appointments, so wish to set different materiality level than overall materiality
- Determine the percentage to be used by using auditor's judgement	<p>Setting materiality for a particular COTABD</p> <ul style="list-style-type: none"> - MoLMCPA <ul style="list-style-type: none"> o Travel: 0.5% - MoPIT <ul style="list-style-type: none"> o Procurement: 0.5% 	<ul style="list-style-type: none"> - Will help determine materiality after application of this percentage.

Area	Example(s)	Implication / Use
- PLANNING MATERIALITY FOR PARTICULAR COTABD	- MoLMCPA <ul style="list-style-type: none"> o Travel - NPR 500 K - MoPIT <ul style="list-style-type: none"> o Consultant - NPR 2.50 M 	- This materiality level is used to derive PERFORMANCE MATERIALITY LEVEL - This materiality means, only, misstatements whether individually or in aggregate exceeding materiality level shall be considered for having quantitative effect on financial statement opinion. - Qualitative aspect such as frauds or non-compliance shall be considered additionally irrespective of the materiality amount (considered as qualitatively material)
2.2. Performance materiality for specific COTABD (<i>in specific circumstances</i>)		
Determine percentage	60% of overall materiality is set as the performance materiality (IDI suggests 60-80%) Percentage determined considering inherent and control risk. If: High – 80% Medium – 70% Low – 60%	- Will help determine performance materiality after application of this percentage.
PERFORMANCE MATERIALITY	Performance Materiality is set lower than the overall materiality - MoLMCPA <ul style="list-style-type: none"> o Travel - NPR 300 K - MoPIT <ul style="list-style-type: none"> o Consultant - NPR 1.50 M (60% assumed) 	- Travel (MoLMCPA) and Procurement (MoPIT) equal and over the performance materiality level must be subjected under test of detail substantive procedure - Auditors can still set lower performance materiality considering the qualitative aspects of materiality
Component (office) performance materiality for COTABD	- % of COTABD performance materiality specific to associated risk and as per professional judgement.	- All areas / issues equal and over the component (office) performance materiality level must be subjected under test of detail substantive procedure.

v. Conduct planning analytical procedures

Risk assessment procedures shall include analytical procedures⁶⁸. Analytical procedures performed as risk assessment procedures may identify aspects of the entity of which the auditor was unaware and may assist in assessing the risks of material misstatement in order to provide a basis for designing and implementing responses to the assessed risks.⁶⁹

Comparing actual to budget amounts and prior year figures allows the auditor to identify risk areas. Auditor should keep in mind that merely stating that there are differences is not enough to identify risks. Auditors need to request management to comment on the differences and evaluate the risks considering these explanations.

Analytical procedures whereby following relationships (some indicative e.g.) are considered:

⁶⁸ ISSAI 2315.6(b)

⁶⁹ ISSAI 2315.A14

- Expenditure versus appropriation;
- Benefit payments, such as senior citizen allowances and pensions versus demographic allocations; and
- Interest as a percentage of debt compared to the established borrowing rate.

Analytical procedures may help identify the existence of unusual transactions or events, and amounts, ratios, and trends that might indicate matters that have audit implications. Unusual or unexpected relationships that are identified may assist the auditor in identifying risks of material misstatement, especially risks of material misstatement due to fraud⁷⁰.

Audit using NAMS

- ▶ The planning analytical procedures is undertaken in NAMS based on the available financial data. The comparison of actual vs. budgeted / estimated data and current year vs. previous year is auto populated giving the variances. The auditor then needs to apply professional judgement in assessing risks based on the variances and trends.

vi. Entity's risks assessment process

The auditor shall obtain an understanding of whether the entity has a process for⁷¹:

- Identifying business risks relevant to financial reporting objectives;
- Estimating the significance of the risks;
- Assessing the likelihood of their occurrence; and
- Deciding about actions to address those risks.

The entity's risk assessment process forms the basis for how management determines the risks to be managed. If that process is appropriate to the circumstances, including the nature, size and complexity of the entity, it assists the auditor in identifying risks of material misstatement. Appropriateness of the risk assessment process is a matter of judgment⁷².

Audit using NAMS

- ▶ The risk of material statement at financial statement level, at assertion level including risk of non-compliances and performance deficiencies shall be assessed by filling in available templates in NAMS.

vii. Document the Overall Audit Strategy – Entity Level Plan

The Overall Audit Strategy Entity Level Plan (AP 1) is based on the main risks identified at a financial statement level and for audit components important enough to have been identified as main risk areas. The overall audit strategy also includes a short description of audit responses to these risks. This may be a very short document summing up the main issues from the risk assessment procedure.⁷³

The documentation of the overall audit strategy (entity audit plan) is a record of the key

⁷⁰ ISSAI 2315 A16

⁷¹ ISSAI 2315.15

⁷² ISSAI 2315.A88

⁷³ ISSAI 2300.12(a); ISSAI 2300.A18; ISSAI 2315.32

decisions considered necessary to properly plan the audit and to communicate significant matters to the engagement team. The auditor may summarise the overall audit strategy in the form of a memorandum that contains key decisions regarding the overall scope, timing and conduct of the audit.⁷⁴

Audit using NAMS

- ▶ NAMS will summarise the processes from 5.3a (i) to (vi) collating all relevant information required for the Overall Audit Strategy for the entity in the form of Entity (level) Audit Plan. Overall Audit Strategy or Entity Audit Plan is prepared at the entity level.

4.3.2. Step 2 Audit Plan (AP 2) – Office Audit Plan

As part of the planning stage and before any fieldwork can be performed, the auditor needs to create the audit plan in the form of audit programmes or checklists, which will identify the test and the procedures required to meet the audit objectives identified in the audit strategy.

The documentation of the audit plan is a record of the planned nature, timing and extent of risk assessment procedures and further audit procedures at the assertion level in response to the assessed risks. It also serves as a record of the proper planning of the audit procedures that can be reviewed and approved prior to their performance. The auditor may use standard audit programs or audit completion checklists, tailored as needed to reflect the particular engagement circumstances.⁷⁵

The audit plan is more detailed than the Overall Audit Strategy. It includes the nature, timing and extent of audit procedures to be performed by engagement team members. Planning for these audit procedures takes place over the course of the audit as the audit plan for the engagement develops. The planning the nature, timing and extent of specific further audit procedures depends on the outcome of those risk assessment procedures⁷⁶.

The auditor shall develop an audit plan (prepared in the form of audit programmes or audit checklists) that shall include⁷⁷:

- a) the nature, timing and extent of planned risk assessment procedures;
- b) The nature timing and extent of planned further audit procedures at the assertion level;
- c) Other planned audit procedures that are required to be carried out so that the engagement complies with the auditing standards i.e. ISSAIs.

The auditor needs to identify the areas, which are going to be audited and the associated assertions being tested. For each assertion, the auditor is to identify the control environment. This means that the auditor will identify what management has put in place to ensure that the assertions are achieved. The test developed by the auditor should include the nature, timing and extent for each test.

⁷⁴ ISSAI 2300.12, ISSAI 2300.A18

⁷⁵ ISSAI 2300.12, ISSAI 2300.A19

⁷⁶ ISSAI 2300.A12

⁷⁷ ISSAI 2300.9

This allows the auditor to ensure that the developed test will gather the information that will meet the audit objectives. For documentation purposes, the auditor can separate each audit programme to correspond with the area audited. This allows the distribution of the work within the audit team members.

In conducting the audit of financial statements, the auditor takes into account the application legal and regulatory framework⁷⁸. Auditor is responsible to obtain sufficient appropriate audit evidence regarding compliance with provisions of the laws and regulations that may have a material effect on the financial statements, amounts and disclosures⁷⁹. These are covered though the design, development and allocation of audit checklists.

The response to assesses risk determines the nature, timing and the extent of the audit. This is documented as audit plan.

i. OAGN PARF and Audit Plan

In line with the OAGN PARF the audit plan for offices shall include the following areas/issues as appropriate.

- Financial
 - to identify whether the financial statements are free from material misstatements in accordance with financial reporting framework and legal requirements; and
 - compliance of laws and regulations directly affecting the financial statements amounts and disclosures
- Compliance
 - compliance of laws and regulations not directly affecting the financial statements amounts and disclosures
- Performance
 - economy, efficiency and effectiveness of the programmes, processes and transactions

ii. Types of Audit Plans

Office (level) Audit Plans

Office (level) audit plan is prepared by the auditor including the information about the office and any specific risks that needs to be consider for the particular office.

A. Sectoral Checklists

Offices identified as having crossed the risk score threshold, as decided in the OAGN annual audit plan, shall be subject to detailed audit procedures. The audit procedures to be applied shall be guided by the selection of applicable checklists including the sectoral checklists.

Audit plans (checklists) are prepared under the principles and processes outlined in this

⁷⁸ ISSAI 2250.5

⁷⁹ ISSAI 2250.7

manual. These depend on the entities and their offices that are to be audited, their circumstances and the applicable laws thus require dynamic response. Sectoral guides at OAGN provide practical guidelines for development of audit plans on various audit areas and issues. The examples of sectoral checklists are revenue audit checklists, administrative expenses audit checklists, public procurement audit checklists, project audit checklist, internal control and financial accountability audit checklists etc.

A1 Financial statement audit checklist

For the audit of entity that prepares financial statements in accordance with the applicable financial reporting framework auditors shall use the financial statement audit checklist:

- audit of the compliance of financial reporting framework,
- appropriateness of consolidation (consolidation may include: consolidation of components of the entity such as offices, branches or other bodies)
- adequacy of disclosures
- Compilation of financial audit issues identified during the audit of offices to assess their impact on the opinion on entity's financial statements.

B. Limited Procedure Checklists

Offices having risk score below the designated threshold, as decided in the OAGN annual audit plan, shall be allocated with limited procedure checklists outlining relevant audit areas. OAGN may prepare multi-layer limited procedure checklist depending on the risk score.

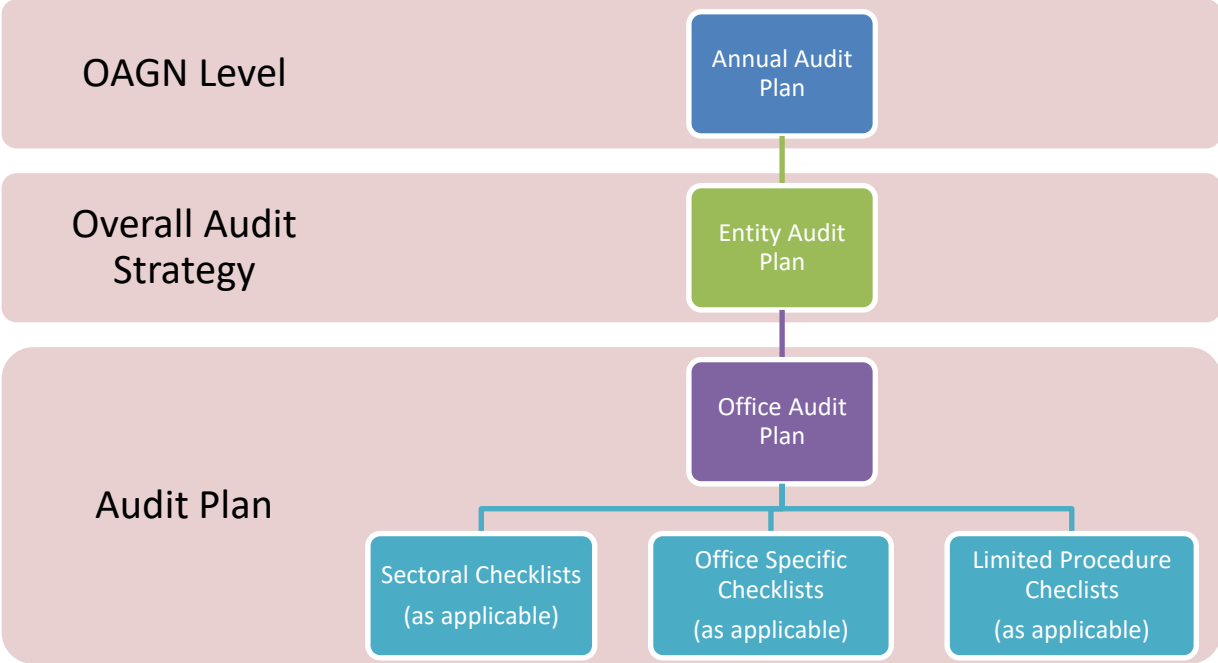
C. Office Specific Checklists

Auditor may, depending on the risk assessment and audit circumstances, prepare and use office specific audit checklists if standard checklists are not adequate to cover the required audit scope.

Audit using NAMS

- ▶ Office Audit Plan is prepared by filling in the information about the particular office in NAMS. NAMS supports auditor for generation of Office Audit Plan.
- ▶ Audit checklists reside in the NAMS as master data. These can be chosen and allocated to the offices in accordance to the planning process. If required new checklist can be developed in NAMS as and when required. The audit plan may be authorised at the OAGN level such as i) generic that is applicable to all; or ii) specific to the (sector); or iii) entity specific; or iv) office specific.
 - Audit team chooses the appropriate applicable audit checklist based on the risks identified for the office being audited.
 - Directorates may allocate appropriate audit plan(s) through NAMS to the relevant offices
 - The office specific audit plan and issues therein can be included in the NAMS master data with appropriate authorisation process.
 - Any changes in the specific audit checklist or creation of new audit checklist must go through due review and approval process through NAMS.

The types of Planning in OAGN shall be as follows:



5. Audit Execution



5.1. Objectives

This chapter gives guidance to the auditor in meeting the following audit objectives:

- performing relevant procedures for each material class of transactions, account balance and disclosure, irrespective of the assessed risks of material misstatement;
- determining the extent of testing (sample sizes);
- documenting audit procedures in such a way as to obtain sufficient appropriate audit evidence and thus draw conclusions on which to base the auditor's opinion;
- keeping a full record of misstatements identified during the audit; and
- Identifying key audit matters and concluding on whether sufficient audit work has been done for all components.

5.2. Working papers and applicable standards

AE 1 Audit authorisation	•ISSAI 100.43 •ISSAI 2210
AE 2 Entry meeting minutes	•ISSAI 100.43 •ISSAI 2260.14-17, 19-22, A54
AE 3 Test of controls	•ISSAI 200.42-43 •ISSAI 2330.8-9,14-15
AE 4 Sampling	•ISSAI 2500.A55, A57; ISSAI 2530
AE 5 Substantive procedures	•ISSAI 2330.4(a), 18-19, 20-21,52; ISSAI 2505; ISSAI 2520.5, A6
AE 6 Other procedures	•ISSAI 200.46, 68, 70, 74-75 •ISSAI 2501; ISSAI 2510; ISSAI 2550; ISSAI 2560; ISSAI 2570; ISSAI 2710; ISSAI 2720
AE 7 Written representation	•ISSAI 2500; ISSAI 2580
AE 8 Exit meeting minutes	•ISSAI 100.43 •ISSAI 2260.16, A17-18; ISSAI 2450.8

5.3. Audit Steps

5.3.1. Step 1 Audit authorisation letter (AE 1)

OAGN shall issue audit authorisation letter for the audit team, addressed to the entity / office that is to be audited. The authorisation letter shall include the following

- When the audit will commence
- Who will be the field audit team

The authorisation letter shall include request to the auditee to provide the audit team with⁸⁰:

- (i) Access to all information of which the management is aware that is relevant to the preparation of the financial statements / financial information such as records, documentation and other matters;
- (ii) Additional information that auditor may request from for the purpose of the audit; and
- (iii) Unrestricted access to persons within the entity / office from whom the auditor determines it necessary to obtain audit evidence.

Audit using NAMS

- ▶ Authorisation templates resides in NAMS and auditor should tailor the authorisation specific to the entity or office that is to be audited. Audit authorisation automatically goes to the auditee interface.

5.3.2. Step 2 Entry meeting minutes (AE 2)

It is essential that the audited entity be kept informed of all matters relating to the audit⁸¹. Audit entry meeting shall be conducted at the commencement of audit as a communication process. Among others, entry meeting can be used as a forum to discuss and communicate with the management and those charged with governance where appropriate on the terms and conditions of the audit engagement. The purpose achieved are following;

- introduce members of the audit team to auditee management;
- solicit auditee management's concerns (if there are any);
- determine appropriate persons within the entity, with whom to communicate;
- determine the matters that need to be communicated⁸²:
 - responsibilities of the entity management and the auditor team, as it has been agreed in the engagement letter and included in the audit authorisation letter;
 - planned scope and timing of the audit;
 - auditor require written representation; and
 - auditors' independence;
- Establish the communication process (the process, form, timing and adequacy)⁸³.

⁸⁰ ISSAI 2210.6(b)iii

⁸¹ ISSAI 100.43

⁸² ISSAI 2260.14-17

⁸³ ISSAI 2260.19-22

Documentation of communication may include a copy of minutes retained as part of the audit documentation where those minutes are an appropriate record of the communication⁸⁴.

Audit using NAMS

- ▶ NAMS contains the entry meeting templates/panes applicable to both entity and offices. The details should be filled in printed and signed by both the auditors and auditee and uploaded in the system.

5.3.3. Step 3 Allocation of work

Audit team leader shall allocate works among the field team members considering the experience and expertise.

Audit using NAMS

- ▶ Once in the field, the audit team leader allocates work, test of control and test of detail (substantive procedures), to individual team member within the NAMS. Only after the allocation of work the audit team members will have access to perform audit testing.

5.3.4. Step 4 Test of controls (AE 3)

Test of controls is an audit procedure designed to evaluate the operating effectiveness of controls in preventing, or detecting and correcting, material misstatements at the assertion level. The auditor shall design and perform tests of controls to obtain sufficient appropriate audit evidence as to the operating effectiveness of relevant controls⁸⁵.

If the auditor obtains more persuasive audit evidence from performing the greater the reliance the auditor can place on the effectiveness of a control⁸⁶. In designing and performing tests of controls, the auditor shall assess whether the controls:

- are adequate, commensurate with the nature and size of the operations;
- were in operation for the entire period covered under the audit; and
- were effective in meeting the control objectives

The auditor performs tests of controls so as to confirm the preliminary assessment of those key controls upon which the auditor intends to rely. The objective of tests of controls is to evaluate whether those key controls operated effectively and continuously during the period under review. The extent of reliance on the control depends on:

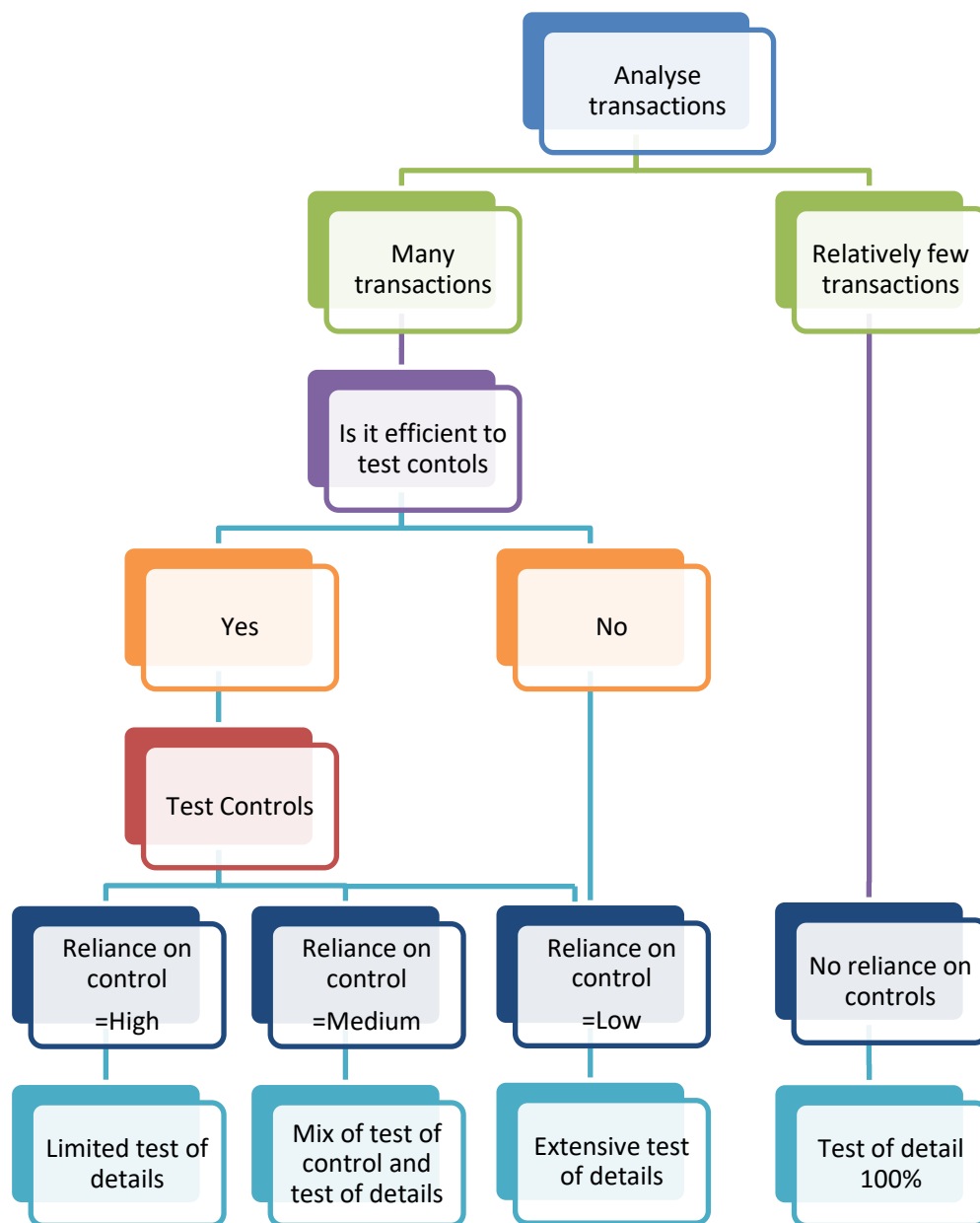
- If the tests of controls confirm that the controls have operated continuously and effectively throughout the period under review, then reliance can be placed on these controls, and minimum substantive testing can be performed; and
- When these controls are found not to have operated continuously and effectively throughout the period under review, the auditor should reassess the audit approach, and increase the extent of substantive testing to be performed.

⁸⁴ ISSAI 2260.A54

⁸⁵ ISSAI 2330.8

⁸⁶ ISSAI 2330.9

Audit execution flow chart – Test of control and Substantive procedures



Process of how audit evidence is obtained by performing test of controls

Obtain evidence of	By performing these test
1. Quality of controls	Test control application – observation, inspection
2. Transactions’ completeness & reliability	Test assertions addressed by controls by re-performing
3. Consistency of the controls applied	Walkthrough of controls and test individual items
4. Correction of detected errors	Corrective actions and follow up
5. Documentation of control application	Review evidences of controls
6. Management’s sensitivity of controls	Testing management and monitoring of controls

If the auditor plans to use audit evidence from a previous audit about the operating effectiveness of specific controls, the auditor shall establish the continuing relevance⁸⁷:

- If there have been changes – test controls in the current period
- If there have not been changes - test the controls at least once in every three year

If the auditor plans to rely on controls over a risk the auditor has determined to be a significant risk, the auditor shall test those controls in the current period⁸⁸.

Audit using NAMS

- ▶ Test of control should be performed using applicable checklists in NAMS. The risks shall be considered in selecting applicable control checklists to determine the functioning of the controls and extent of reliance that can be placed on the controls and conclude whether any further revision to audit plan is required or not.
- ▶ Predefined internal control checklists reside in the NAMS for the audit to select and perform test of controls. Checklists applicable for the particular office should be selected depending on the risk assessment.

5.3.5. Step 5 Changes of audit plan (audit programme / checklist) - if any

As a result of unexpected events, changes in conditions, or the audit evidence obtained from the results of audit procedures, the auditor may need to modify the overall audit strategy and audit plan and thereby the resulting planned nature, timing and extent of further audit procedures, based on the revised consideration of assessed risks⁸⁹.

Audit using NAMS

- ▶ New risks and circumstances in the field may demand amendments to the audit plan or creation on new plan. The team leader shall, in NAMS, create a new the office specific audit checklist to cater to risk identified and the specific circumstances.
- ▶ The new checklists, if required, after going through appropriate approval process may be included in the master checklist for subsequent use or use in other offices.
- ▶ The new checklist may be circulated to similar offices where there is potential for the risk event identified.

5.3.6. Step 6 Audit sampling (AE 4)

Audit sampling is the application of audit procedures to less than 100% of items within a population of audit relevance such that all sampling units have a chance of selection in order to provide the auditor with a reasonable basis on which to draw conclusions about the entire population⁹⁰.

High value or key items: The auditor may decide to select specific items within a population because they are high value, or exhibit some other characteristics, for example items that are

⁸⁷ ISSAI 2330.14

⁸⁸ ISSAI 2330.15

⁸⁹ ISSAI 2300.A15

⁹⁰ ISSAI 2530.5a

suspicious, unusual, and particularly risk-prone or that have a history of error⁹¹.

<p style="text-align: center;">High Value (e.g. 6 items out of 6 i.e. 100%)</p>	<ul style="list-style-type: none"> • items/transactions above a particular monetary value which the auditor decides to examine on a 100% basis (e.g. all items above materiality level needs to be tested, if 6 out of 100 items are of high value all 6 are selected)
<p style="text-align: center;">Key items (e.g. 7 Items out of 7 i.e. 100%)</p>	<ul style="list-style-type: none"> • Auditor using judgment may decide that some items due to their nature are prone to error or important warranting a 100% audit. (e.g. if 7 items are identified by the auditor as key items all 7 are selected)
<p style="text-align: center;">Remaining population (e.g. 17 items out of 87 i.e to ensure 30% coverage)</p>	<ul style="list-style-type: none"> • Apply sampling techniques to select items to be tested from among remaining population after high value and key items (e.g. 87 out of 100 are remaining and if auditor decides to cover 30% then 17 items are selected)

A. Transaction Selection using sampling

Application guidelines:

- Office Audit Plan (AP2) defines extent of audit (along with nature and timing) and is taken as the basis to start the transaction selection.
- High value and Key items must be subjected to substantive procedures irrespective of the given AP 2 extent, i.e. even if high value and key items cumulatively exceed the extent indicated in AP 2. In such cases revision of AP 2 is required.
- If there are no high value and/or key items in a population then sampling procedure is used to select the transactions.
- High value and key item selection are judgemental selection.
- Sampling procedures are performed to select transactions so that each item in the population has equal chance of being selected (e.g. by using random number)
- AP 2 determined extent and the test of control conclusion on extent of reliance depends on the sample size.

B. Sampling design

Audit sampling is designed to enable conclusion to be drawn about an entire population on the basis of testing a sample drawn from it⁹². When designing an audit sample, the auditor's consideration includes the specific purpose to be achieved and the combination of audit procedures that is likely to best achieve that purpose⁹³.

In considering the characteristics of the population from which the sample will be drawn, the auditor may determine that stratification or value-weighted selection is appropriate⁹⁴.

- Stratification – is dividing the population into discrete sub-populations which have an identifying characteristic. The objective of stratification is to reduce the variability of items within each stratum and therefore allow sample size to be reduced without increasing sampling risk.
- Value weighted selection – where the sampling unit is identified as the individual monetary units that make up the population. One benefit of this approach to

⁹¹ ISSAI 2500.A55

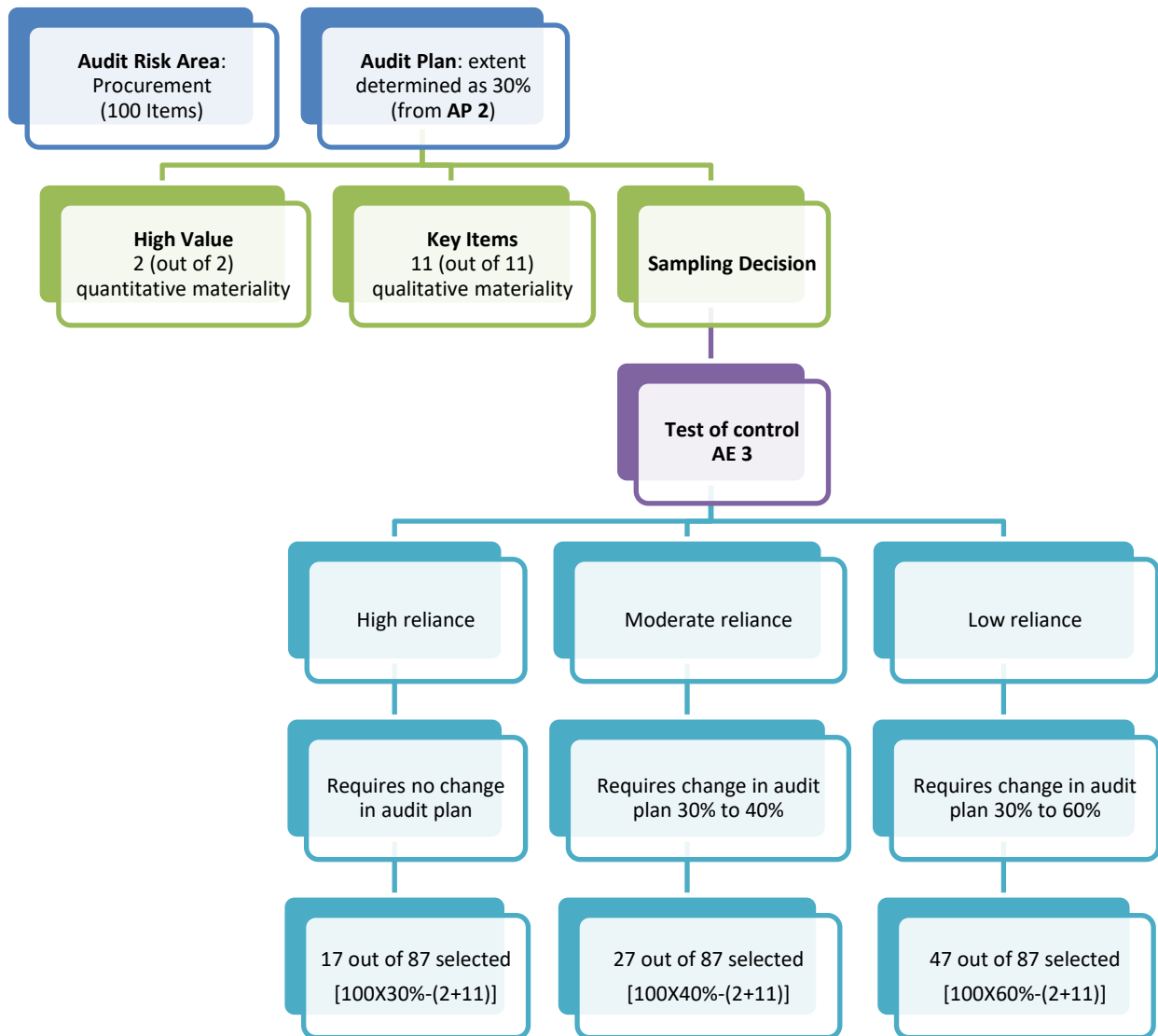
⁹² ISSAI 2500.A57

⁹³ ISSAI 2530.6, A5

⁹⁴ ISSAI 2530.A8, Appendix 1

defining the sampling unit is that audit effort is directed to the larger value items because they have a greater chance of selection and can result in smaller sample sizes.

Illustration:



C. Sample size

The level of sampling risk that the auditor is willing to accept affects the sample size required. The lower the risk the auditor is willing to accept, the greater the sample size will need to be⁹⁵. Determining sample size auditor may consider the following (e.g. for test of detail):

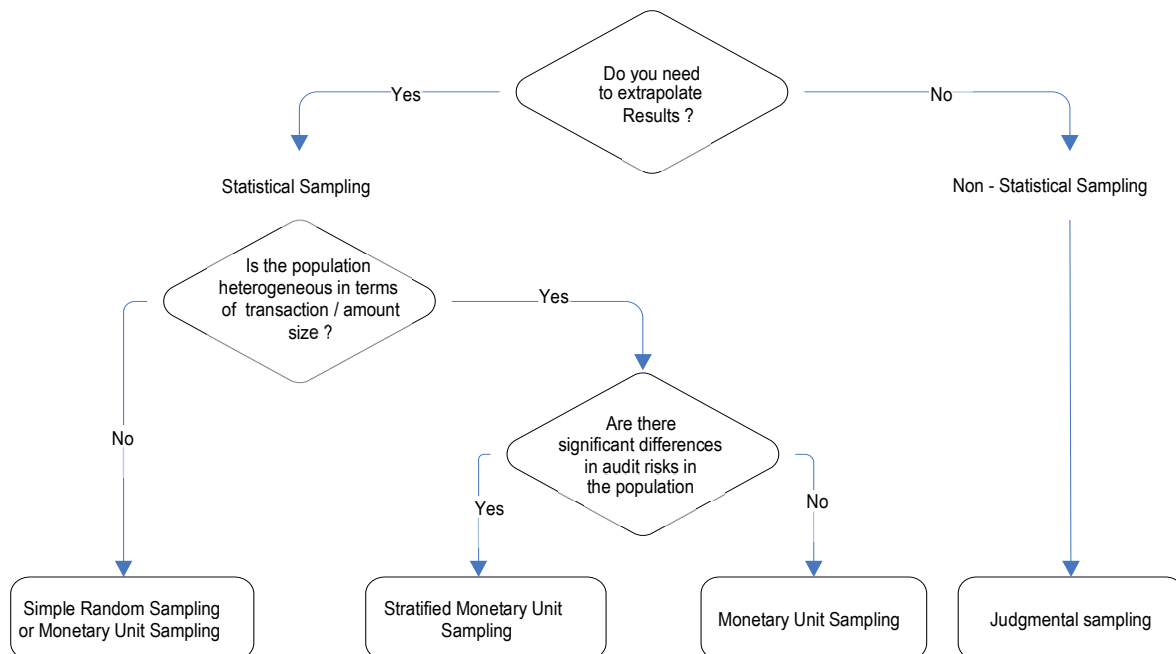
⁹⁵ ISSAI 2530.A10

	FACTORS	EFFECT ON SAMPLE SIZE
1	An increase in auditor's assessment of material misstatement	Increase
2	An increase in the use of other substantive procedures directed at same assertion	Decrease
3	An increase in auditor's desired level of assurance that tolerable error not exceeded by actual misstatement	Increase
4	An increase in tolerable misstatement	Increase
5	An increase in the amount of misstatement the auditor expects to find	Increase
6	Stratification of population when appropriate	Decrease
7	The number of sampling units in the population	Negligible effect

D. Sample selection – methods

The auditor shall select items for the sample in such a way that each sampling unit in the population has a chance of selection⁹⁶.

- With statistical sampling, sample items are selected in a way that each sampling unit has a known probability of being selected (based on laws of probability).
 - random selection – use of random numbers
 - systematic selection – using sampling intervals
 - Monetary unit selection – every Rupee has equal chance of selection; therefore, larger amount has more chance of (getting hit) selection.
- With non-statistical sampling, judgment is used to select sample items.
 - judgemental selection – high value, key-items
 - haphazard selection – no structured technique
 - block selection – selection of a block within a population



⁹⁶ ISSAI 2530.8, A12

E. Performing audit procedures and projecting misstatements

The auditor shall perform audit procedures, appropriate to the purpose, on each item selected⁹⁷. In analysing the deviations and misstatements identified, the auditor may observe that many have a common feature, that may warrant extension of audit procedures. In addition, such deviations or misstatements may be intentional, and may indicate the possibility of fraud⁹⁸.

The auditor is required to project misstatements for the population to obtain a broad view of the scale of misstatement, but this projection may not be sufficient to determine an amount to be recorded. When a misstatement has been established as an anomaly, it may be excluded when projecting misstatements to the population. However, the effect of any such misstatement, if uncorrected, still needs to be considered in addition to the projection of the non-anomalous misstatements.⁹⁹

F. Evaluating sampling results

The auditor shall evaluate whether the use of audit sampling has provided a reasonable basis for conclusions about the population that has been tested¹⁰⁰. The projected misstatement plus anomalous misstatement, if any, is the auditor's best estimate of misstatement in the population, which if any, exceeds tolerable misstatement, the sample does not provide a reasonable basis for conclusions about the population that has been tested¹⁰¹.

After testing the sample auditor shall consider

- Nature and causes or the errors
- Calculate and project sample error
- Reach overall conclusion
- Consider whether the conclusion warrants more sampling and /or additional testing.

Audit using NAMS

- ▶ NAMS will take the extent to be audited from the audit planning process. The guide to the materiality has been given for high value item based on the on component performance materiality. NAMS will allow key item selection for the auditors using their professional judgement. Sample size can be increased if required, but auditors need to carry out the audit for extent of the audit they had originally planned. Sampling can be the transactions (voucher based) or files as auditor deems appropriate. Sampling has to be done before substantive procedure (test of detail) is carried out. Auditor may apply random number or similar statistical sampling method to select transaction / files for audit testing.

⁹⁷ ISSAI 2530.10

⁹⁸ ISSAI 2530.A17

⁹⁹ ISSAI 2530.A18,19

¹⁰⁰ ISSAI 2530.15

¹⁰¹ ISSAI 2530.A22

5.3.7. Step 7 Substantive procedures (AE 5)

Substantive procedure is an audit procedure designed to detect material misstatements at the assertion level and comprise of¹⁰²:

- (a) Tests of details (of classes of transactions, account balances, and disclosures); and
- (b) Substantive analytical procedures.

Irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance, and disclosure¹⁰³.

The auditor's substantive procedures shall include the following audit procedures related to the financial statement closing process¹⁰⁴:

- (a) Agreeing or reconciling information in the financial statements with the underlying accounting records, including agreeing or reconciling information in disclosures; and
- (b) Examining material journal entries and other adjustments made during the course of preparing the financial statements.

i. Identifying whether the risk/audit areas are significant

Risk/Audit area are significant if there is the specific office audit plan is allocated to. Office Audit Plan in the form of checklist or audit programme is prepared/assigned as AP 2 for specific audit area/risk area/ audit issue. The COTABD that are not within the scope of office audit plan are considered or assumed as not significant.

ii. Assess whether substantive analytical procedure is appropriate

For all significant audit/risk areas assess whether substantive analytical procedure is appropriate or not. If appropriate, substantive analytical procedures are applied otherwise test of detail have to be applied.

iii. Apply type of substantive audit procedures as appropriate

Apply substantive audit procedures as follows

- Substantive analytical procedure – if such procedures are considered appropriate
- Minimum substantive procedures – if the risk/audit area is considered not significant
- Test of details – for risk/audit area which is considered significant but where substantive analytical procedures are not appropriate.

A. Substantive analytical procedures

Analytical procedures is designed and performed as substantive procedures either alone

¹⁰² ISSAI 2330.4(a)

¹⁰³ ISSAI 2330.18,19

¹⁰⁴ ISSAI 2330.20, A52

or in combination with tests of details¹⁰⁵. Substantive analytical procedures are generally more applicable to large volume of transactions that tend to be predictable over time. It is based on the expectation that relationships among data exist and continue in the absence of known conditions to the contrary¹⁰⁶.

Analytical procedures include:

- Comparison with the comparable information for prior periods;
- Comparison with anticipated results, such as budgets and forecasts;
- Financial information that would be expected to conform to a predictable pattern; and
- Consideration of relationship between financial and non-financial information. (e.g. staff number and salary, rent contract and rental expenditure)

B. Minimum substantive procedures

Minimum substantive procedures include limited test of details. Unless the ROMM indicate otherwise, in auditors' judgement, auditors may not do detailed corroborative procedures such as physical count, external confirmation etc. Minimum substantive procedures may be designed to enhance the audit efficiency.

C. Test of details

Test of details includes tracing figures to relevant supporting documents to determine the validity of transactions, proper classification, and completeness.

Tests of details could be:

- Identification of transactions and invoices to verify whether they are correctly stated in relation to the identified assertions;
- Verification and/or inspection, including physical verification;
- External confirmations, confirming balances with outside parties;
- Recalculation of estimates or other relevant calculations;

Audit using NAMS

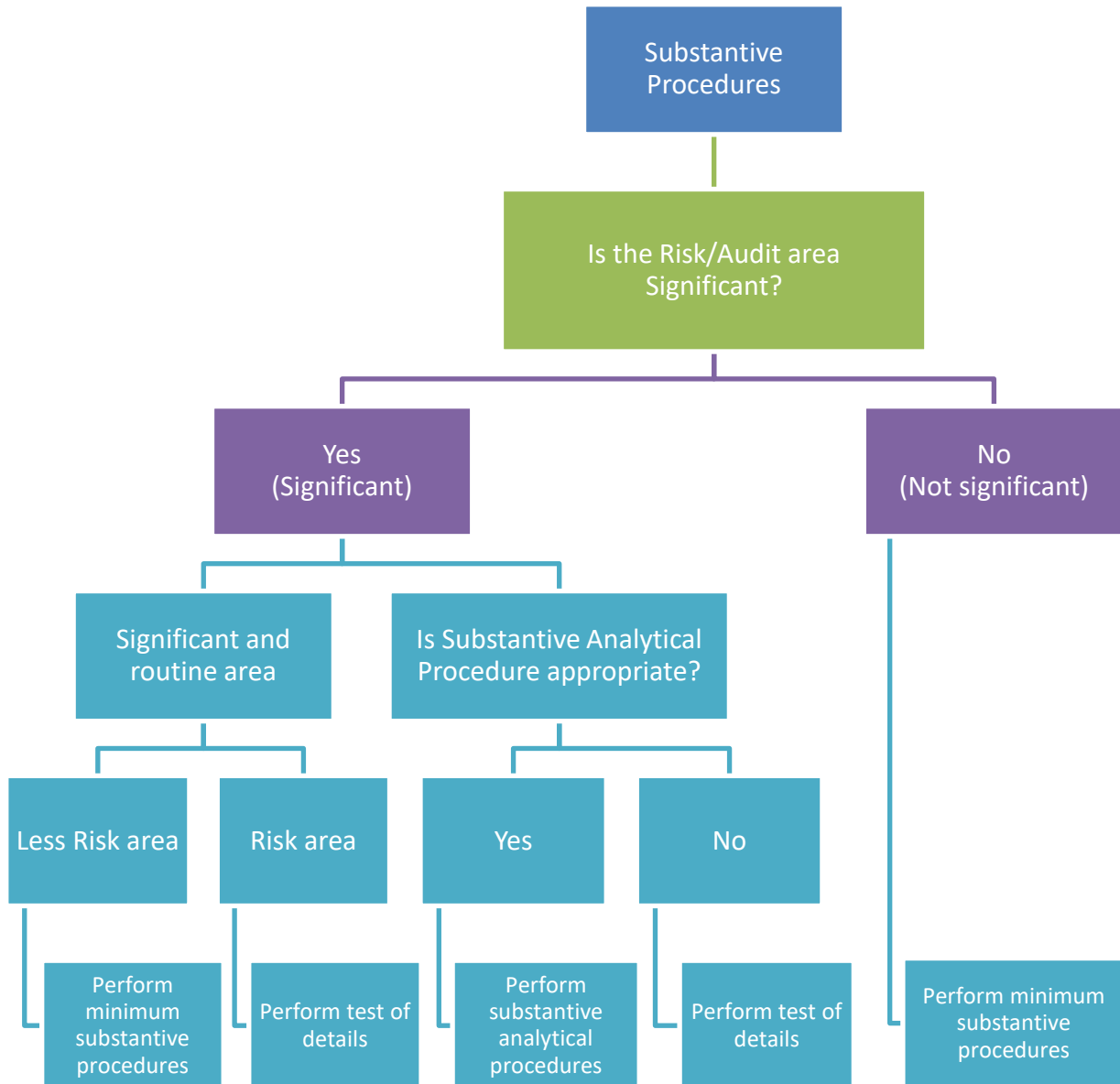
- ▶ Substantive procedures should be done through and recorded in NAMS. NAMS contains templates to perform and record substantive procedures and the conclusions. NAMS has the feature to track the extent of audit procedure planned and the test of detail undertaken.

If the auditor has determined that an assessed risk of material misstatement at the assertion level is a significant risk, the auditor shall perform substantive procedures that are specifically responsive to that risk. When the approach to a significant risk consists only of substantive procedures, those procedures shall include tests of details¹⁰⁷. The substantive procedure process-flow will be as follows:

¹⁰⁵ ISSAI 2520.5

¹⁰⁶ ISSAI 2520.A6

¹⁰⁷ ISSAI 2330.21



5.3.8. Step 8 Audit evidences

The objective of the auditor is to design and perform audit procedures in such a way as to enable the auditor to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor’s opinion¹⁰⁸. The auditor shall design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence¹⁰⁹.

- Sufficiency (of audit evidence) – is the measure of the quantity
- Appropriateness (of audit evidence) – is the measure of the quality

¹⁰⁸ ISSAI 200.54; ISSAI 2500.4

¹⁰⁹ ISSAI 2500.6

Sources of audit evidence

- Obtained by performing audit procedures
- Corroborative information obtained from a source independent of the entity
- Third party confirmations, analysts' reports, and comparable (benchmarking) data
- Previous year's audits

SOURCE	EXAMPLES OF EVIDENCE	QUALITY	AUDIT CONSIDERATIONS
INTERNAL	Information from databases, documents and records produced by the audited entity	Lower, due to potential bias	Accuracy and completeness of such information should be evaluated
EXTERNAL	Confirmations (from banks, etc.) Work of other auditors/experts	Higher	Independence of the third party
AUDITOR	Analysis, computation, enquiry, inspection and observation	Highest	Base information may have been produced internally

Audit evidence is necessary to support the auditor's opinion and report(s). It is cumulative in nature and is primarily obtained from audit procedures performed during the course of audit. Audit evidence comprises both information that supports and corroborates management's assertions, and any information that contradicts such assertions.

Audit Procedures	Consideration of evidence
Physical	
Direct inspection or observation of property or people	Usually the most persuasive evidence, however the auditor's presence may distort reality
Documentary	
Review of accounting documents and records, manuals, management representations	Useful information may not always be documented, necessitating the use of other approaches.
Oral	
Enquiry or interviews of entity staff/third party documented / corroborated where possible.	Rarely the auditor accepts information obtained in interviews to be reliable in its own right
Analytical	
Analysis through reasoning, reclassification, computation and comparison.	Such evidence is obtained by using professional judgment to evaluate evidences (as above).

Audit evidences are recoded and maintained in NAMS

Audit using NAMS

- ▶ NAMS has features to facilitate recording of audit evidences. The rough notes that the auditor makes during the audit can be recorded in the *Tipot* section of the test of detail pane. Auditors should use NAMS to record all audit evidences that can be in the form of documents, pictures etc.

5.3.9. Step 9 Other procedures (AE 6)

Auditors are, under the auditing standards, required to perform some other audit procedures. These procedures are grouped under other procedures. Auditor should apply this section if these are applicable to the individual audit engagements.

i. Opening Balances

The auditor shall obtain sufficient appropriate audit evidence about whether the opening balances contain misstatements that materially affect the current period's financial statements by ¹¹⁰.

- determining whether the prior period's closing balances have been correctly brought forward to the current period or, when appropriate, have been restated;
- determining whether the opening balances reflect the application of appropriate accounting policies;
- Performing specific audit procedures to obtain evidence regarding the opening balances.

ii. Inventory

If inventory is material to the financial statements, the auditor shall obtain sufficient appropriate audit evidence regarding the existence and condition of inventory by¹¹¹:

- Assessing physical inventory counting done by the management by (If practicable attend the physical count and perform following procedures.)
 - Evaluating management's instructions and procedures for recording and controlling the results of the entity's physical inventory counting;
 - Reviewing management's count procedures
 - Inspecting the inventory;
 - Performing test counts;
- Performing audit procedures over the entity's final inventory records to determine whether they accurately reflect actual inventory count results.

iii. Litigations and claims

The auditor shall design and perform audit procedures in order to identify litigation and claims involving the entity which may give rise to a risk of material misstatement, including¹¹²:

- Inquiry of management and, where applicable, others within the entity, including entity's legal counsel;
- Reviewing minutes of meetings of those charged with governance and correspondence between the entity and its external legal counsel; and
- Reviewing legal expense accounts.

The auditor shall request the management and, where appropriate, those charged with governance to provide written representations that all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to the auditor and accounted for and disclosed in accordance with applicable financial reporting framework¹¹³.

¹¹⁰ ISSAI 2510.5

¹¹¹ ISSAI 2501.4

¹¹² ISSAI 2501.9

¹¹³ ISSAI 2501.12

iv. Segment information (where applicable)

The auditor shall obtain sufficient appropriate audit evidence regarding the presentation and disclosure of segment information in accordance with the applicable financial reporting framework by obtaining an understanding of the methods used by management in determining segment information and evaluating and testing such methods¹¹⁴.

v. Related Parties

The auditor should design and perform further audit procedures to obtain sufficient appropriate audit evidence about the assessed risks of material misstatement associated with related party relationships and transactions¹¹⁵. Auditor shall:

- seek to identify related party transactions (whether or not previously disclosed/identified)
- assess effect of related party transactions and adequacy of the disclosures;
- Seek written representation, where circumstances require.

Transactions and balances between one public sector entity and another public sector entity is not considered as related parties¹¹⁶.

vi. External Confirmation

The auditor shall also consider whether external confirmation procedures are to be performed as substantive audit procedures¹¹⁷. External confirmation procedures frequently are relevant when addressing assertions associated with account balances and their elements but may also include confirmation of the terms of agreements, contracts, or transactions.

vii. Subsequent events

Financial statements may be affected by certain events that occur after the date of the financial statements. Reporting frameworks ordinarily identify two types of events¹¹⁸:

- (a) that provide evidence of conditions that existed at the date of the financial statements;
- (b) That provide evidence of conditions that arose after the date of the financial statements.

The auditor shall perform audit procedures designed to obtain sufficient appropriate audit evidence that all events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements have been identified¹¹⁹.

The date the financial statements are issued, for the public sector, may be the date the audited financial statements and the auditor's report thereon are presented to the legislature

¹¹⁴ ISSAI 2501.13

¹¹⁵ ISSAI 2550.20

¹¹⁶ IAS 24 (revised)

¹¹⁷ ISSAI 2330.18,19, ISSAI 2505

¹¹⁸ ISSAI 2560.2

¹¹⁹ ISSAI 200.68; ISSAI 2560.6

or otherwise made public¹²⁰.

viii. Going concern

The auditor should consider and conclude whether there are events or conditions that represent a material uncertainty about the audited entity's intention and ability to continue as a going concern¹²¹.

The going-concern concept may have little or no relevance for public-sector entities such as those funded through appropriations on the government budget. However, going concern may be more relevant to government business enterprises and joint ventures with others.

ix. Comparative information

The auditor should obtain sufficient appropriate audit evidence about whether any comparative information (corresponding figures and comparative financial statements) included in the financial statements has been presented, in all material respects, in accordance with the requirements for comparative information in the applicable financial reporting framework and report in accordance with the auditor's reporting responsibilities¹²².

- (a) Corresponding figures – are amounts and other disclosures of the prior period included as an integral part of the current period financial statements.
- (b) Comparative financial statements – are where amounts and other disclosures for prior period(s) are included for comparison with the financial statements of the current period.

The auditor's opinion does not refer to the corresponding figures because the auditor's opinion is on the current period financial statements as a whole, including the corresponding figures except¹²³:

- Modification in auditor's report on the prior period is unresolved
- Misstatement in the prior period financial statements
- Prior period financial statement is not audited

When comparative financial statements are presented, the auditor's opinion shall refer to each period for which financial statements are presented and on which an audit opinion is expressed¹²⁴.

x. Other information

Other information refers to financial or non-financial information (other than financial statements and the auditor's report thereon) included in an entity's annual report¹²⁵.

¹²⁰ ISSAI 2560.A5

¹²¹ ISSAI 200.46; ISSAI 2570

¹²² ISSAI 200.70; ISSAI 2710.5

¹²³ ISSAI 2710.10, A2

¹²⁴ ISSAI 2710.15

¹²⁵ ISSAI 200.75; 2720.12(c)

The auditor should read all other information in an entity's annual report / other reports and consider whether there are any material inconsistencies or material misstatement of fact with the audited financial statements, or with the auditor's knowledge obtained during the audit. If, when considering the other information, the auditor identifies a material inconsistency or material misstatement of fact, the auditor should determine whether the audited financial statements or the other information needs to be revised¹²⁶.

The auditor's responsibilities do not constitute an assurance engagement on other information or impose an obligation to obtain assurance about the other information¹²⁷.

xi. Using work of an expert (where applicable)

Auditor while considering using the work of an expert shall evaluate the following¹²⁸:

- Need for the expert's work;
- Competence, capability and objectivity of the expert; and
- Evaluate adequacy of the expert's work.

xii. Estimates (where applicable)

The auditors should separately assess inherent risk and control risks relating to an accounting estimate and related disclosures at assertion level. Auditors shall assess¹²⁹

- How management has made the accounting estimate;
- Methods applied and significant assumptions taken, and data used;
- Related estimation uncertainties; and
- Possible management bias and outcome of an accounting estimate.

Audit using NAMS

- ▶ The NAMS provides templates to test and record the other (audit) procedures. Auditors shall select the applicable procedure in NAMS, if applicable to their audits and record audit evidences obtained. This particular section also features the add on facility to add any additional audit procedures required if they are not covered in the NAMS.

5.3.10. Step 10 Audit queries (memos)

The auditor should communicate significant findings, including material weaknesses in internal control, on a timely basis to the auditee management¹³⁰.

The findings after having been reviewed by the audit team leader are presented to the auditee in the form of audit queries (memos). The purpose of the audit queries (memos) is to clear the facts, which then provide the raw material for the final report. Properly cleared facts are the basis of a soundly based report, and thus reduce the time required to agree the final

¹²⁶ ISSAI 200.74

¹²⁷ ISSAI 2720.6

¹²⁸ ISSAI 2620.7-13

¹²⁹ ISSAI 2540 (revised)

¹³⁰ ISSAI 2260, ISSAI 2450.8

report with the auditee.

Audit memos set out the findings that should be sent to the auditee upon completion of the audit procedures within standard timeframes. The auditee is then required to respond to the audit queries (memos), also, within the stipulated timeframe (as provided by laws and regulations). The auditor should analyse this response, ensuring that valid issues raised by the auditee are taken into account when drafting the preliminary audit report / management letter and forming the audit opinion.

Audit queries (memos) may be sent either in a batch or single-set as decided by the team leader.

Audit using NAMS

- ▶ NAMS houses the email of the auditee personnel, to whom the audit queries can be sent on which the auditee can respond to. Audit queries are written in the test of control and test of detail panes of the NAMS. These must be converted into paras, if they are to be included in the report. Only those that have been converted into paras are communicated to the auditee. Auditor has the flexibility to merge multiple observations into one audit para given the opening background of the audit query.

5.3.11. Step 11 Written representation (AE 7)

Written representation is a written statement by management provided to the auditor to confirm certain matters or to support another audit evidence¹³¹. Written representations are an important source of audit evidence however they do not provide sufficient appropriate audit evidence on their own about any of the matters with which they deal¹³².

Auditor shall request written representation from the management on the following matters¹³³:

- that it has fulfilled its responsibility for the preparation of financial statements in accordance with the applicable reporting framework;
- that it has provided the auditor with all relevant information and access as agreed;
- all transactions have been recorded and are reflected in the financial statements;
- other matters as auditor required
 - to support other audit evidences relevant to the financial statements.

Written representation shall be obtained at both entity level and at office level. Written representation should be dated as near as practicable to, but not after, the date of the report.

Audit using NAMS

- ▶ NAMS houses the audit representation templates. Auditor needs to tailor make as appropriate and applicable to the entity / office and get it signed by the auditee. The signed copy of the representation should be uploaded in the NAMS.

¹³¹ ISSAI 2580.7

¹³² ISSAI 2580.4, A1

¹³³ ISSAI 2580.10-13

5.3.12. Step 12 Exit meeting minutes (AE 8)

An audit exit meeting is not a requirement of ISSAIs but is often used to ensure that the preliminary auditor report (or management letter), audit findings, management's response, and the final version of the financial statements are discussed and agreed with management and, where relevant, those charged with governance. This meeting also reduces the risks of misunderstanding between the management and the auditor at a later stage on issues reflected in the final audit report. Some refer to this as the audit clearance meeting.

Other matters relevant to the audit can also be discussed, such as difficulties encountered during the audit process, so they can be addressed in the next audit, details of any ethical matters that can be clarified with management, etc.

The auditor and management should maintain the minutes of the exit meeting detailing the discussions of the auditor's report and the specific audit findings, and the decisions reached on each discussion point. The minutes should then be dated and signed by representatives of the audit team and the management. The minutes of the audit exit meeting also become audit evidence, which is used as the basis to finalise the audit report.

Upon conducting the audit exit meeting, the audit team prepares the audit report considering the response provided by management and those charged with governance.

Audit using NAMS

- ▶ NAMS contains the exit meeting template/pane applicable to both entity audit and audit of offices. The details should be filled in, including the discussion of the findings yet to be settled, get it printed and signed by both the auditors and auditee. The signed copy of the exit meeting must be uploaded in the NAMS.

6. Audit Reporting



6.1. Objectives

Audit reports are OAGN's main output. The purpose of audit reports is to communicate the results of OAGN's work to the legislature, the auditee and the general public. By publishing reports, OAGN helps to improve the financial management of the government and assists the legislature in exercising its power of control over the implementation of the budget.

The key to a good report is effective communication, with the report clearly and objectively setting out the main findings and conclusions on the audit objectives, allowing the reader to understand what was done, why and how, and providing practical recommendations. A properly conceived and implemented audit provides the basis for a good audit report. The reporting phase begins with the drafting of the preliminary observations and ends with the publication of the report.

6.2. Working papers and applicable standards

AR 1 Supervisor review

- ISSAI 100.50; ISSAI 200.57
- ISSAI 2450.5, 11, A42-A25; ISQC-1 A35

AR 2 PAR / ML

- ISSAI 200.56
- ISSAI 2250.6, 14, A5, A12; ISSAI 2260.16; ISSAI 2265.6

AR 3 Audit Report (opinion)

- ISSAI 100.50; ISSAI 200.58-62
- ISSAI 2700; ISSAI 2701; ISSAI 2705; ISSAI 2706

6.3. Audit Steps

6.3.1. Step 1 Evaluation of Misstatements

The auditor should evaluate the audit evidence with a view to obtaining audit findings. When evaluating the audit evidence and assessing materiality of findings the auditor should take both quantitative and qualitative factors into consideration¹³⁴.

Misstatement is the difference between what has been reported and what was supposed to be reported. The auditor shall accumulate misstatements identified during the audit, other than those that are clearly trivial¹³⁵.

¹³⁴ ISSAI 100.50

¹³⁵ ISSAI 2450.5

The auditor shall determine whether misstatements are material, individually or in aggregate. In making this determination, the auditor shall consider¹³⁶:

- The evaluation of misstatements is done against the materiality and the tolerable error limit that the auditor has set using professional judgement.
- The misstatement should include the identified misstatements and the projected misstatements based on the sample results.
 - (a) The size and nature of the misstatements, both in relation to particular classes of transactions, account balances or disclosures and the financial statements as a whole, and the particular circumstances of their occurrence; and
 - (b) The effect of misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole.

The auditor shall also evaluate a misstatement affected by the auditor's responsibilities established by law, regulation or other authority to report specific matters, including, for example, fraud. Furthermore, issues such as public interest, accountability, probity and ensuring effective legislative oversight, in particular, may affect the assessment whether an item is material by virtue of its nature. This is particularly so for items that relate to compliance with law, regulation or other authority¹³⁷.

Audit using NAMS

- ▶ Misstatements are recorded in the NAMS as *beruju*, for both the quantified and non-quantified audit queries (observations). Auditor should use the NAMS feature that consolidates uncorrected misstatements relevant to the entity and the financial statements for auditor to make the judgement.

Identified misstatement is what has been identified during the audit based on the sample tested. Projected misstatement is projection of misstatement in the population based on the sample results. Uncorrected misstatements are the amounts that have not been adjusted (rectified) in the financial statements

6.3.2. Step 2 Supervisor's Review (AR 1)

After completing the audit procedures, the audit documentations are reviewed in order to determine whether the subject matter has been sufficiently and appropriately audited. Before drawing conclusions, the auditor reconsiders the initial assessment of risk and materiality in the light of the evidence collected and determines need for additional audit procedures¹³⁸.

To maintain consistency and achieve an audit report of high quality, the report should go through a quality review process. Review consist of consideration whether¹³⁹:

¹³⁶ ISSAI 200.57; ISSAI 2450.11

¹³⁷ ISSAI 2450.A24-25

¹³⁸ ISSAI 100.50

¹³⁹ ISQC-1..A35

- The work has been performed in accordance with professional standards and applicable legal and regulatory requirements;
- Significant matters have been raised for further consideration;
- Appropriate consultations have taken place and the resulting conclusions have been documented and implemented;
- There is a need to revise the nature, timing and extent of work performed;
- The work performed supports the conclusions reached and is appropriately documented;
- The evidence obtained is sufficient and appropriate to support the report; and
- The objectives of the engagement procedures have been achieved.

Audit using NAMS

- ▶ The supervisor has access in NAMS to conduct real-time review of the work done, queries raised, queries settled. Further the supervisor is required to sign off in the NAMS and conclude whether additional audit procedures are required or not. Supervisor also assesses whether the conduct of the audit has been as planned, in accordance with the manual and applicable standards.

6.3.3. Step 3 Preliminary Audit Report (AR 2)

The auditor should record misstatements identified during the audit, bring them to the attention of management or those charged with governance. The auditor should assess if the misstatements mean further audit is required and their impact on the financial statements¹⁴⁰. The auditor shall communicate with those charged with governance¹⁴¹:

- auditor's views about significant qualitative aspects of the auditee's accounting practices, including accounting policies, accounting estimates and disclosures;
- circumstances that affect the form and content of the auditor's report, if any;
- any other significant matters arising during the audit that, in the auditor's professional judgment, are relevant to the oversight of the financial reporting process.
- Deficiency in internal control where; the control is unable to prevent, detect and correct misstatement on timely basis; or where such controls are missing¹⁴².

The audit findings must be compiled by the field audit team members based on the audit and the discussion with the auditee management. A preliminary audit report shall be issued to the auditee within the stipulated timeframe upon completion of the audit but before issuance of the audit report (opinion).

Audit using NAMS

- ▶ PAR is generated in NAMS by compiling all audit observations that are to be reported. In addition, auditor may add opening paras and closing paras which are not audit queries (*beruju*) to make the report more readable. The PAR once approved by the supervisor is automatically shared with the auditee seeking response from the auditee management on the audit findings and observations.

¹⁴⁰ ISSAI 200.56

¹⁴¹ ISSAI 2260.16

¹⁴² ISSAI 2265.6

PAR shall be prepared at two levels (i) at Office /branch level and (ii) at entity level:

A. PAR at Office level (i.e. office / branch)

The reporting on the audit at the office level (office/branch) shall be in the form of a preliminary audit report. The issues or queries (memos) not settled within stipulated time shall be include in three distinct sections according to the type of the audit queries/issues, namely as follows¹⁴³;

(a) Financial issues

- issues and/or misstatements identified during the audit that may have bearing on the amount and disclosures in the financial statements;
- compliance of laws and regulation that have direct effect on the financial statements amounts and disclosures¹⁴⁴.

(Note: these issues are to be considered in context of materiality while preparing PAR at office level as well as at entity level while forming an opinion on financial statements of which the offices audited constitute as components)

(b) Compliance issues

- public sector auditors have extended responsibilities on compliances of laws and regulations relating to other aspects of office's operations other than relating to audit of financial statements¹⁴⁵;
- issues relating to compliance of laws, regulations and control requirements that do not have direct effect on the financial statements amounts and disclosures;

(Note: auditor should care not to double report issues with the separate compliance audits undertaken under Compliance Audit Manual)

(c) Performance issues

- issues such as economy, efficiency and effectiveness of the transactions, activities and controls
- adequacy of laws, regulations and controls

(Note: auditor should care not to double report issues with the separate performance audits undertaken under Performance Audit Manual)

B. PAR at Entity level (financial statement level)

PAR at financial statement level shall be prepared considering the following:

- (a) Financial audit issues that may have bearing on the financial statements amounts and disclosures of the consolidated financial statement/general purpose financial

¹⁴³ OAGN Audit restructuring framework, 2020; ISSAI 400.20-26

¹⁴⁴ ISSAI 2250.6, 14, A12

¹⁴⁵ ISSAI 2250.A5

statement prepared under the financial reporting framework on which audit opinion is to be expressed;

- (b) Consolidation of all material issues from the Financial Issues section of the PAR of the offices, that form the component of the entity, have to be done to enable formation of audit opinion on financial statements.

C. Auditee's response on PAR

OAGN audit findings are subject to procedures of comment and the recommendations to discussions and responses from the auditee¹⁴⁶. A timeframe as specified in law¹⁴⁷ or in absence of legal requirement an appropriate period of time shall be given to the auditee to revert with its responses and settlement of observations raised in the PAR.

If the auditee, as per the prevailing law, requests to OAGN a time extension for giving responses and settlement of queries a period specified in the law¹⁴⁸ or a reasonable period of time extension may be granted when the reasons are deemed to be justifiable. Conclusions on the auditee's responses and settlement of queries are to be drawn on the basis of reliability of information and evidences produced by the auditee. The auditor needs to discuss or communicate with the higher management for the settlement of audit findings.

Audit using NAMS

- ▶ Auditee provides responses and evidences in the NAMS portal access provided for them on the PAR.

D. Management letter

OAGN may issue a Management Letter along with the auditor's report to the auditee if it considers it necessary to do so. Management letter shall contain principal audit findings in the audit. Management Letter is generally issued at the entity level compiling material observations of the offices / branches. Separate management letter is generally given to, but not limiting to, SOEs and Projects.

6.3.4. Step 4 Forming and Opinion

Based on the findings, the auditor should exercise professional judgement to reach a conclusion on the subject matter or subject matter information¹⁴⁹. Based on the audit evidence, the auditor should form an opinion as to whether the financial statements have been prepared in accordance with the applicable financial reporting framework, and if they are free from material misstatement. In order to form an opinion, the auditor should first conclude whether they have reasonable assurance on whether the financial statements as a whole are free from material misstatement¹⁵⁰.

The auditor should express an unmodified opinion if the audit evidence shows that the financial statements have been prepared, in all material respects, in accordance with the

¹⁴⁶ INTOSAI P20.3

¹⁴⁷ Sec 37 of Financial Procedure and Financial Accountability Act, 2076

¹⁴⁸ Sec 37 of Financial Procedure and Financial Accountability Act, 2076

¹⁴⁹ ISSAI 100.50

¹⁵⁰ ISSAI 200.58-59; ISSAI 2700.10-11

applicable financial framework¹⁵¹.

In addition to the opinion on the financial statements, the auditor may be required by law or regulation to report observations and findings which have not affected the opinion, and any recommendations made as a result thereof. These elements should be clearly distinguished from the opinion¹⁵².

If the auditor concludes that, based on the audit evidence obtained, the financial statements as a whole contain material misstatement, or the auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement, the auditor should modify the opinion in the auditor's report in accordance with the "Modifications to the opinion of the auditor's report"¹⁵³.

6.3.5. Step 5 Auditor's Report (AR 3)

The objectives of the auditor are¹⁵⁴:

- (a) To form an opinion on the financial statements based on an evaluation of the conclusions drawn from the audit evidence obtained; and
- (b) To express clearly that opinion through a written report.

Audit report with opinion shall be issued by OAGN, based on the audit of financial statements prepared under a financial reporting framework, and shall contain the following:

A. Title

The auditor's report shall have a title that clearly indicates that it is the report of an auditor¹⁵⁵. Indicating as "auditor general's report on the financial statements of [entity]" distinguishes the report from reports issued by others.

B. Addressee

The auditor's report shall be addressed, as appropriate, to whom the law, regulation or the terms of the engagement specify. The auditor's report is normally addressed to those for whom the report is prepared.¹⁵⁶

C. Opinion

Unmodified opinion: unmodified report shall contain follows¹⁵⁷:

- Reference to the financial statements that have been audited

¹⁵¹ ISSAI 200.60; ISSAI 2700.16

¹⁵² ISSAI 200.62; ISSAI 2700.43-45, A58-A60

¹⁵³ ISSAI 200.61; ISSAI 2700.17

¹⁵⁴ ISSAI 2700.6

¹⁵⁵ ISSAI 2700.20, A21

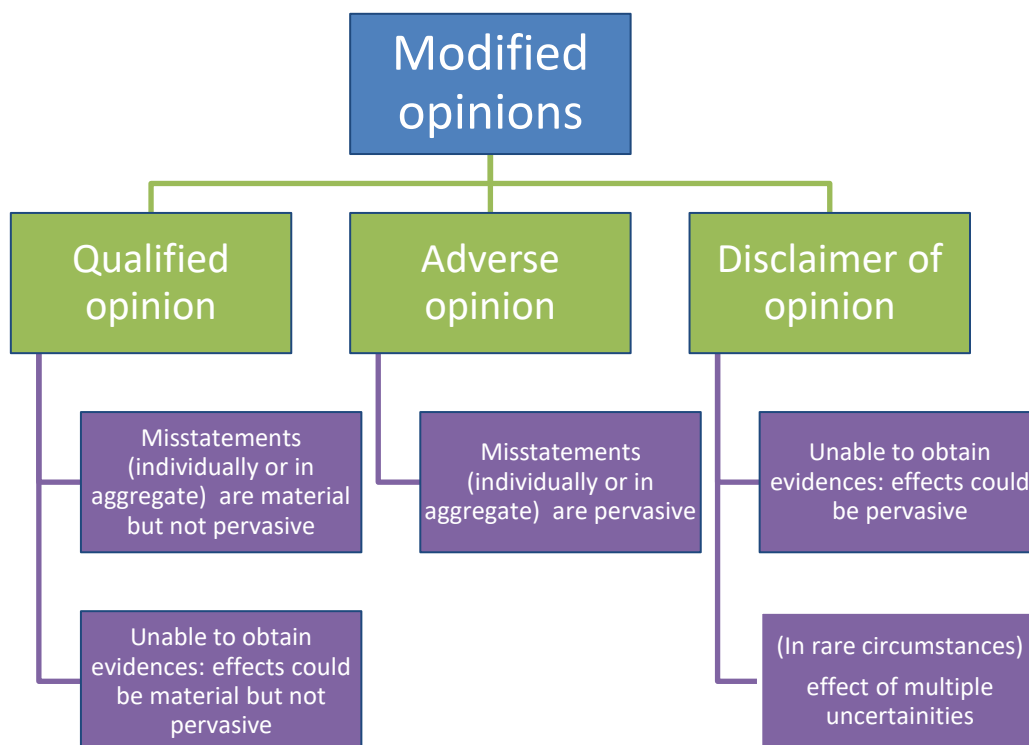
¹⁵⁶ ISSAI 2700.22, A21

¹⁵⁷ ISSAI 2700.23-27, A22-31

- Identify the entity whose financial statements have been audited
 - State that financial statements have been audited
 - Identify title of each statement comprising the financial statements including notes and significant accounting policies
 - Specify date of or period covered by each of those financial statements
- Opinion
 - “presents fairly, in all material respects” or “give true and fair view” OR
 - Description of the applicable financial reporting framework

Modified opinions

There are three types of modified opinions, namely, a qualified opinion, an adverse opinion, and a disclaimer of opinion¹⁵⁸. When the auditor modifies the audit opinion, the auditor shall use the heading “Qualified Opinion,” “Adverse Opinion,” or “Disclaimer of Opinion,” as appropriate, for the opinion section¹⁵⁹.



*Pervasive effects on the financial statements are those that, in the auditor’s judgment:*¹⁶⁰

- *are not confined to specific elements, accounts or items of the financial statements;*
- *if confined, represent or could represent a substantial proportion of the financial statements; or*

¹⁵⁸ ISSAI 2705.2, 5(b)

¹⁵⁹ ISSAI 2705.16

¹⁶⁰ ISSAI 2705.5

- *in relation to disclosures, are fundamental to users' understanding of the financial statements.*

Qualified Opinion¹⁶¹

When the auditor expresses a qualified opinion due to a material misstatement in the financial statements or for material limitation of scope, the auditor shall state that, in the auditor's opinion, except for the effects of the matter(s) described in the Basis for Qualified opinion section in the auditor's report.

Adverse Opinion¹⁶²

When the auditor expresses an adverse opinion, the auditor shall state that, in the auditor's opinion, because of the significance of the matter(s) described in the Basis for Adverse opinion section financial statements:

- EITHER do not present fairly (or give a true and fair view of);
- OR have not been prepared in all material aspects;

in accordance with applicable financial reporting framework.

Disclaimer of opinion¹⁶³

When the auditor disclaims an opinion due to an inability to obtain sufficient appropriate audit evidence, the auditor shall state that:

- (a) the auditor does not express an opinion on the accompanying financial statements;
- (b) because of the significance of the matter(s) described in the Basis for Disclaimer of opinion section, the auditor has not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements; and
- (c) 'the auditor was engaged to audit the financial statements' in place of financial statement has been audited.

D. Basis for opinion

Basis of opinion para of the unmodified report shall contain follows¹⁶⁴:

- State that auditing standards in accordance of which the audit was conducted;
- Refer to the section of the auditor's report that describes the auditor's responsibilities;
- Statement that the auditor is independent under relevant ethical requirement and the auditor has fulfilled other ethical responsibilities under these requirements;
- States whether the auditor believes that the audit evidence the auditor has

¹⁶¹ ISSAI 2705.17

¹⁶² ISSAI 2705.18

¹⁶³ ISSAI 2700.19

¹⁶⁴ ISSAI 2700.28, A32-A37

obtained is sufficient and appropriate to provide a basis for the auditor's opinion.

Basis of opinion para of the modified report shall, in addition of statements included for unmodified report as above, contain follows:¹⁶⁵

- amend "Basis for Opinion" to "Basis for Qualified/Adverse/Disclaimer of Opinion";
- description of matter giving rise to the modification;
- quantification of the financial effects of the misstatement (if quantitative), unless impracticable, in which case state the fact;
- explanation of how disclosures (if qualitative) are misstated or not disclosed as required;
 - as result of that adequate disclosure of a material uncertainty of going concern is not made in the financial statements¹⁶⁶.
- reasons for the inability to obtain sufficient appropriate audit evidence;
 - amend the statement that sufficient appropriate audit evidence has been obtained
- for disclaimed opinion do not include (i) description of auditor's responsibilities and (ii) audit provides basis for opinion and sufficient appropriate evidence has been obtained.

E. Going Concern

Where applicable, auditor shall report on the material uncertainty related to going concern (*Note: going concern may have little or no relevance to government sector*)

F. Emphasis of matter paragraph

A paragraph to draw users' attention to a matter or matters appropriately presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements¹⁶⁷.

Considerations:

- Indicate that auditor's opinion is not modified in respect of the matter emphasised;
- Emphasis of matter is not a substitute for a description of individual key audit matter;
- Fully describe the matter that it can be found in the financial statements;
- Some examples of circumstances requiring emphasis of matter

¹⁶⁵ ISSAI 2705.20-27, A21-A24

¹⁶⁶ ISSAI 2570.23, A32-33

¹⁶⁷ ISSAI 2706.7(a)

- Financial reporting framework prescribed by law but is determined as unacceptable
 - Restricting the amendment of financial statements to the effect of subsequent events
 - Financial statements that are prepared in accordance with a special purpose framework and may not be suitable for another purpose.
- Placement of emphasis para
 - If relates to financial reporting framework, just after Basis of Opinion
 - depends on the auditor's judgement on relative significance with key audit matter

G. Key Audit Matters

The auditor shall communicate key audit matters in the auditor's report as required by law or regulation or as required for an entity having public accountability¹⁶⁸. Key matters are not substitute for expression of modified opinion where auditor is required to express a qualified opinion on the matter¹⁶⁹.

Key audit matters are those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period. Key audit matters are selected from matters communicated with those charged with governance¹⁷⁰.

- Areas of higher risks or significant risks identified
- Areas involving significant management judgement (e.g. estimation uncertainty)
- Significant events or transactions

H. Other Matters

A paragraph to draw users' attention to a matter other than those presented or disclosed in the financial statements that, in the auditor's judgment, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report¹⁷¹.

Considerations¹⁷²

- the matter should not be prohibited by law or regulation
- the matter has not been determined to be a key audit matter
- Some examples of circumstances requiring 'other matter'
 - Comparative financial statements issues
 - Where applicable, report on other information contained in the document

¹⁶⁸ ISSAI 2700.30-31, A40-A42

¹⁶⁹ ISSAI 2701.12

¹⁷⁰ ISSAI 2701.8-10

¹⁷¹ ISSAI 2706.7(b)

¹⁷² ISSAI 2706.10

accompanying the audited financial statement¹⁷³.

Auditor may, this use this para to report performance related matters of the entity, as AG is legally required to report matters relating to economy, efficiency and effectiveness.

I. Responsibilities for the financial statements

The auditor's report shall describe management's responsibility for¹⁷⁴:

- (a) preparation financial statements in accordance with the applicable financial reporting framework;
- (b) such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;
- (c) assessing the entity's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate; and
- (d) identifying those responsible for the oversight of the financial reporting process.

J. Auditor's responsibilities for the audit of financial statements

This section of auditor's report shall state¹⁷⁵:

- (a) the auditor's objective to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error and to issue an auditor's report that includes auditor's opinion;
- (b) that reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists; and
- (c) that misstatements can arise from fraud or error, and either:
 - they are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements
 - define or describe materiality in accordance with the applicable financial reporting framework.

Auditor's responsibilities for the audit of financial statements shall further state¹⁷⁶:
(either by including within the body of the auditor's report or within an appendix, or website in which case include a reference to the location)

- the auditor exercises professional judgment and maintains professional scepticism throughout the audit;

¹⁷³ ISSAI 2700.29, 31

¹⁷⁴ ISSAI 2700.34, 35

¹⁷⁵ ISSAI 2700.38, A50-53

¹⁷⁶ ISSAI 2700.39-41

- describe the audit processes and the associated auditor’s responsibilities¹⁷⁷;
- the auditor remains solely responsible for the auditor’s opinion (even in case of group financial statements)

K. Other reporting responsibilities- “Report on other legal and regulatory requirements”¹⁷⁸

Other reporting responsibilities can be combined with the auditor’s report under the heading “Report on other legal and regulatory requirements” where auditors have additional responsibility to report on other matters that are supplementary to the auditor’s responsibilities under ISSAIs.

Auditor’s report shall clearly differentiate the other reporting responsibilities from the reporting that is required under the ISSAIs.

Auditor may, this use this para to report compliance related matters of the entity, as AG is legally required to report matters relating to regularity and propriety.

L. Name of the signatory

The name of the signing authority who is to sign the audit report shall be included in the auditor’s report on financial statements¹⁷⁹. Position of the signatory and professional identification, as relevant, may also be used to identify the signing authority in addition to the name.

M. Signature

The auditor’s report shall be signed by the auditor which may be the person delegated by the Auditor General to sign on his behalf. Law or regulation may allow electronic signatures in the audit report¹⁸⁰.

N. Address

The auditor’s report shall name the location¹⁸¹.

O. Date

The auditor’s report shall be dated no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor’s opinion on the financial statements, including evidence that¹⁸²:

- (a) all the statements and disclosures that comprise the financial statements have been prepared; and

¹⁷⁷ ISSAI 2700.39(b), 40

¹⁷⁸ ISSAI 2700.43-45, A58-60

¹⁷⁹ ISSAI 2700.46, A60-62

¹⁸⁰ ISSAI 2700.47, A64-A65

¹⁸¹ ISSAI 2700.48

¹⁸² ISSAI 2700.49, A66-A69

(b) those with the recognised authority have asserted that they have taken responsibility for those financial statements.

Special considerations for forming an audit opinion:

The audit opinion on the circumstances as described will be as follows:

- **Independent entity**
 - Gets financial statements audited
 - issue audit opinion as appropriate
 - Does not get financial statement audited
 - no report is issued, included in AG's annual report under "pending audits"
- **Independent or controlling entity**
 - Gets financial information audited but does not prepare financial statement as required under the applicable framework
 - Issue adverse opinion that financial statements not in accordance with applicable reporting framework
 - PA issues under 'other information'
 - CA issues under 'other legal and regulatory requirements'
- **Controlled entity**
 - Gets financial information audited
 - normal reporting procedures i.e. PAR/ML; and
 - consider impact on overall financial statements
 - Does not get financial information audited
 - PAR/ML with single issue quantifying the total value not audited
 - Include in qualifying para at the controlling entity (financial statement level)
- **Disclaimer of opinion**
 - In extreme circumstances when auditee is unable to provide required evidences, that is so material and pervasive, for the conduct of the audit.

Audit using NAMS

- ▶ NAMS has housed standard audit report templates that the auditor can appropriately tailor-make to suit the audit opinion of the entity where financial audit opinion is expressed.

7. Audit Follow-up

7.1. Objectives

OAGN's should have effective follow-up mechanisms and report on its recommendations to ensure that the audited entities/offices properly address their observations and recommendations as well as those made by the Legislature. OAGN's follow-up procedures allow for the auditee to provide information on corrective measures taken or why corrective actions were not taken¹⁸³.

Follow-up focuses on whether the auditee has adequately addressed the matters raised by the audit, including any wider implications. Insufficient or unsatisfactory action taken by the auditee may call for a further report by OAGN. Besides statutory requirements, one of the purposes of conducting financial audits is to help improve the systems and procedures including the financial reporting process in the entity/office.

By conducting follow-up, OAGN will also be able to establish value addition by way of financial audit in terms of improvements introduced in the system. Unless follow-up is put in practice, OAGN cannot gauge whether the desired impact of audit has been effective or not. Therefore, a follow-up is one of the important components of the audit process, and that audit process cannot be complete without it. Further, even management and those charged with governance may not be motivated to take action if there is no follow-up system in OAGN.

7.2. Working paper and standards and legal requirements

AF 1 Audit Followup

- INTOSAI-P20.3, ISSAI 100.51
- Audit Act 2075,
- Financial Procedure and Financial Accountability Act, 2076

7.3. Steps / Process

OAGN has a role in monitoring action taken by the responsible party in response to the matters raised in an audit report. Follow-up focuses on whether the auditee has adequately addressed the matters raised, including any wider implications. Insufficient or unsatisfactory action by the auditee may call for a further report by the OAGN¹⁸⁴.

Follow-up in OAGN should be a continuous process, until the outstanding audit findings are resolved based on appropriate action taken by management or those charged with governance. Follow up commences after issuance of the initial report and upon receiving a first response from management or those charged with governance.

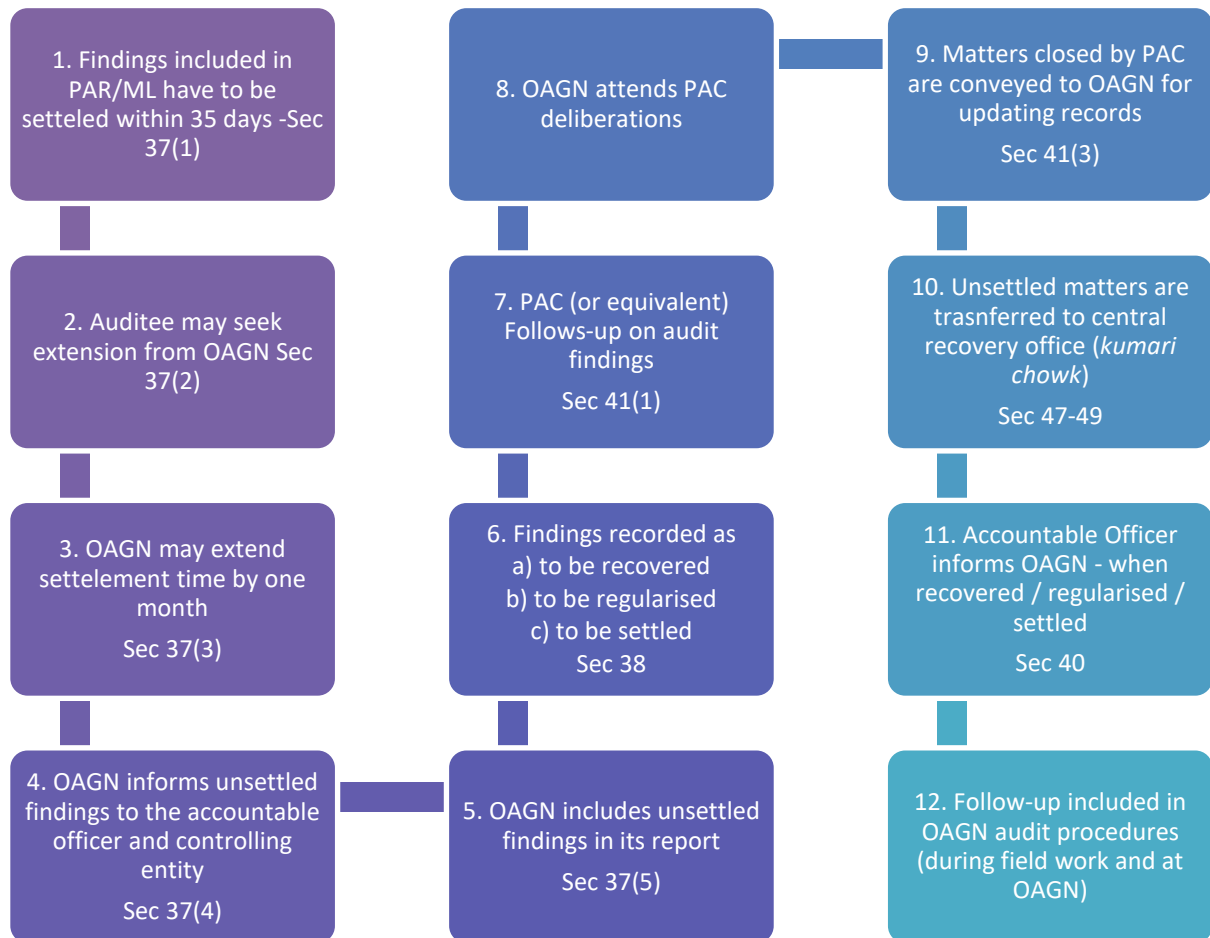
The frequency of the follow-up is decided by the law or in absence of any legal provision it is decided by OAGN. It is in the best interest of OAGN and the auditee to resolve outstanding

¹⁸³ INTOSAI-P20.3

¹⁸⁴ ISSAI 100.51

audit issues, including any qualifications, as early as possible.

7.3.1. Legal requirement of Audit Follow up¹⁸⁵



Note: Irregularity settlement committee, central recovery offices, federal PAC are all federal bodies for settlement for beruju at federal level. Audit needs to consider equivalent structures formed at provinces or local levels for beruju settlement

Public sector auditors may report additional information, as discussed in previous sections, such additional reporting may require additional follow up activities to be performed. The audit report as discussed in Chapter 6 may contain a qualified audit opinion on the financial statements, key audit matters, audit findings covering deficiencies in internal controls and non-compliance with laws and regulations that may or may not have direct effect on the financial statements.

Auditors must always follow-up on material observations they have raised to ensure the issues that have been identified have been resolved by the auditee. In the context of a financial audit, the auditor will typically perform this follow-up as part of the audit process of the subsequent year audit since unresolved prior year issues may represent risks of material

¹⁸⁵ Financial Procedure and Financial Accountability Act, 2076 Sec 37-49

misstatement of the financial statements of the subsequent year.

Legislative bodies such as Public Accounts Committee(s) plays an active role in the review and follow-up of the audit reports tabled in the Parliament. Therefore, there could be two levels of follow-up of audit findings and recommendations, i.e. one at OAGN level and another at the Public Accounts Committee/legislative level.

7.3.2. OAGN follow-up is done at following stages

i. Current year's audit findings

Auditee has timeframe as stipulated in the law (35 days) to settle the current year's findings. Auditee for valid reason may seek extension of this timeframe under the law. After receiving the responses auditor shall take action on the evidences or clarifications produced. When the decision for settlement of audit observations from a preliminary audit report is made, the settled audit finding, or amount shall be removed from the record. Findings that have not been settled are communicated to the auditee.

ii. Previous years' audit findings / report

Auditee shall follow the necessary procedures as directed by the Auditor General and shall request to the OAGN or audit team using a prescribed format for clearance of findings included in previous years' audit report. The responsible officer at OAGN shall examine all documents produced by the auditee.

When the decision pertaining to the clearance or non-clearance of auditee's request is made, the auditee shall be informed in writing in prescribed format. If any finding is settled, it shall be recorded in the master of OAGN.

Findings pending settlement for a long time, except those identified as recoverable or misused, shall be put under purview of the Irregularity Settlement Committee to be constituted under prevailing law. The decisions of the committee in respect to clearance of audit findings shall be updated in the follow up database

iii. Findings included in Auditor General's annual report

Findings included in the Auditor General's annual report are deliberated at the Public Accounts Committee (PAC), or equivalent, of the legislative body. PAC report approved from the legislature indicating clearance of any findings shall be communicated to OAGN for updating OAGN's records.

Audit using NAMS

- ▶ OAGN holds data base for all audit para identified with the auditee. The follow up under the law, at OAGN, is done in NAMS. Year-wise or auditee -wise pending audit observations (*berujus*) can be reported and analysed using NAMS. The *beruju* reported in AG report can be electronically shared with PAC though NAMS.
- ▶ Auditee responds and *settles* the *beruju* in the NAMS portal.

- ▶ All the evidence for settlement and the settlement approval decisions are recorded in NAMS.
- ▶ Beruju settlement authority is inbuilt in NAMS i.e. which level has the authority to settle *beruju* of what amount is to be decided by OAGN and incorporated in the master data.

7.3.3. Other follow-up considerations

- Issue Log – auditee-wise record of unsettled issues (*berujus*) are maintained and updated at OAGN
- Follow up action – OAGN follows up during audits or otherwise on the basis of documents and evidences brought forward by the auditee for clearance of audit issues (*berujus*).
- Points for next audits – the issues identified and pending issues (*berujus*) are considered for risk assessment for next audits (not limited to financial audits)

8. Audit Quality Control

8.1. Objectives

The objective of the auditor is to implement quality control procedures at the engagement level that provide the auditor with reasonable assurance that¹⁸⁶:

- (a) The audit complies with professional standards and applicable legal and regulatory requirements; and
- (b) The auditor's report issued is appropriate in the circumstances.

Auditors should perform the audit in accordance with professional standards on quality control. OAGN's quality control policies and procedures should comply with professional standards, the aim being to ensure that audits are conducted at a consistently high level. Quality control procedures should cover matters such as the direction, review and supervision of the audit process and the need for consultation in order to reach decisions on difficult or contentious matters¹⁸⁷.

8.2. Working paper and applicable standards

QC 1 Quality Control
Questionnaire

- ISSAI 140; ISSAI 100.38; INTOSAI-P 20
- ISQC-1; ISSAI 2220

8.3. Steps / Process

8.3.1. Elements of a system of Quality Control

OAGN shall establish and maintain system of quality control that includes policies and procedures that address the following.

A. Leadership responsibilities

OAGN should establish policies and procedures designed to promote an internal culture recognising that quality is essential in performing all of its work. Such policies and procedures should be set by the Auditor General, who retains overall responsibility for the system of quality control¹⁸⁸.

¹⁸⁶ ISSAI 2220.6

¹⁸⁷ ISSAI 100.38

¹⁸⁸ ISSAI 140.1, ISQC-1.18, INTOSAI-P 20.5

B. Relevant ethical requirements

OAGN should establish policies and procedures designed to provide it with reasonable assurance that OAGN, including all personnel and any parties contracted to carry out work for OAGN, comply with relevant ethical requirements.¹⁸⁹

C. Audit Engagements

The policies and procedures should reflect the range of work carried out by OAGN. OAGN's work is mandated by the constitution. OAGN carries out audits in three broad categories¹⁹⁰:

- Work that is required of by the mandate and statute;
- Work that is required by the mandate, but where OAGN has discretion as to the timing scope and / or nature of work;
- Work that OAGN can choose to carry out.

OAGN ensures that

- competence to perform the work, time and resources have been ascertained;
- relevant ethical requirements are compiled; and
- has considered various risks associated with the auditee including ways to treat the risk to the quality that may arise

D. Human resource

To perform audit engagements in accordance with professional standards and applicable legal and regulatory requirements and issue appropriate reports OAGN should have policies and procedures for¹⁹¹:

- performance evaluation;
- professional development;
- capabilities (including sufficient time to perform audits to the required quality standard);
- competence (including both ethical and technical competence);
- career development; and
- the estimation of personnel needs.

E. Engagement performance

OAGN should ensure appropriate policies, procedures and tools, such as audit methodologies are in place for carrying out the range of work that is the responsibility of the OAGN, including work that is contracted out. Such policies and procedures include¹⁹²:

- matters relevant to promoting consistency in the quality of engagement performance;
- supervision responsibilities; and
- review responsibilities".

F. Monitoring

¹⁸⁹ ISSAI 140.2; ISQC-1.20, INTOSAI-P10, GUID 9030

¹⁹⁰ ISSAI 140.3; ISQC-1.26

¹⁹¹ ISSAI 140.4; ISQC-1.29

¹⁹² ISSAI 140.5; ISQC-1.32, INTOSAI-P 20.3

OAGN should establish a monitoring process designed to provide it with reasonable assurance that the policies and procedures relating to the system of quality control are relevant and adequate and are operating effectively. The monitoring process should¹⁹³:

- include an ongoing consideration and evaluation of the OAGN’s system of quality control, including a review of a sample of completed work across the range of work carried out;
- require responsibility for the monitoring process to be assigned to an individual or individuals with sufficient and appropriate experience and authority; and
- require that those carrying out the review are independent (i.e. they have not taken part in the work or any quality control review of the work).

8.3.2. Steps of engagement quality control ¹⁹⁴



i. Every audit process has to be reviewed

Every audit process has to be reviewed. The review should always be undertaken by a person of higher level than the person performing the work. The work process shall not be considered as closed or completed unless reviewed. This is to ensure that there is no self-review and segregation on role is ensured between ‘the maker’ and ‘the checker’

ii. Supervisor’s review before final reporting (PAR-ML/ Auditor’s Report)

Supervisor shall review the work performed by the field team to ensure that the work has been performed as planned and in accordance with applicable standards. The review shall be done in AR 1. (detail guideline is given in 6.3.a-b).

¹⁹³ ISSAI 140.6; ISQC-1.49, INTOSAI-P 20.9

¹⁹⁴ ISSAI 2220.15-21 A14-A26

iii. First level review by the audit team leader

To ensure the quality control of the audit, at the end of the field audit, team leader shall fill in the quality control questionnaire to ensure that the required procedures have been appropriately undertaken. (working paper reference QC 1)

iv. Second level review by the supervisor at the end of the audit

After the first level review by the field team leader the second level quality control review of the work is again done by the supervisor. (working paper reference QC 1)

8.3.3. Quality control process

i. Direction, supervision and performance

- Direction to the engagement team involves informing the members on:
 - Teams responsibility on ethics, to plan and perform with professional scepticism;
 - Objectives of the work to be performed;
 - Nature of the auditee;
 - Risk related issues.
- Supervision includes matters such as:
 - Tracking the progress of the audit
 - Whether the work has been carried out in accordance with planned approach
 - Addressing significant matters and consultations
- Appropriate teamwork and training assist less experienced members

ii. Reviews

- Review consist of consideration whether:
 - Work has been performed in accordance with professional standards and legal requirements;
 - Significant matters addressed properly;
 - Need to revise nature, timing and extent of audit;
 - Work performed supports conclusion reached and appropriately documented;
 - Evidence obtained is sufficient and appropriate to support auditor's report

iii. Consultation

Effective consultation on significant technical, ethical and other matters within OAGN who have appropriate knowledge and experience, and when required, with outside experts.

iv. Engagement quality control review

Conducting engagement quality review in a timely manner at appropriate stages during engagement allows significant matters to be promptly resolved on or before the date of auditor's report.

Audit using NAMS

- ▶ Every audit process has to be reviewed by the team leader and approved in the NAMS. After the end of the audit execution supervisor reviews and approves the audit conclusions. As a part of the quality control team leader completes the first level quality control review in the NAMS and supervisor completes the second level quality review in the NAMS. Supervisor has real time access in the system to review whether the audit has been conducted as planned directed in accordance with the laws and standards. The reviewer (team leader and supervisor can communicate on real time basis with team members providing guidance, directions and instructions in NAMS.

8.3.4. Quality Assurance

Quality Assurance is an assessment process focusing on the design and operation of the quality control system by persons independent of the system / audit under review. This assessment is designed to ensure that the system of quality control in audit is working effectively and the individual audits are carried out in compliance with auditing standards, rules, practices, procedures, and code of ethics issued by OAGN.

Quality assurance at OAGN is conducted under OAGN's Quality Assurance Handbook.

Audit using NAMS

- ▶ Access for independent quality assurance either from within OAGN (those not involved in the audit process) or from outside OAGN (e.g. for peer reviews) can be given access in NAMS for such assurance reviews

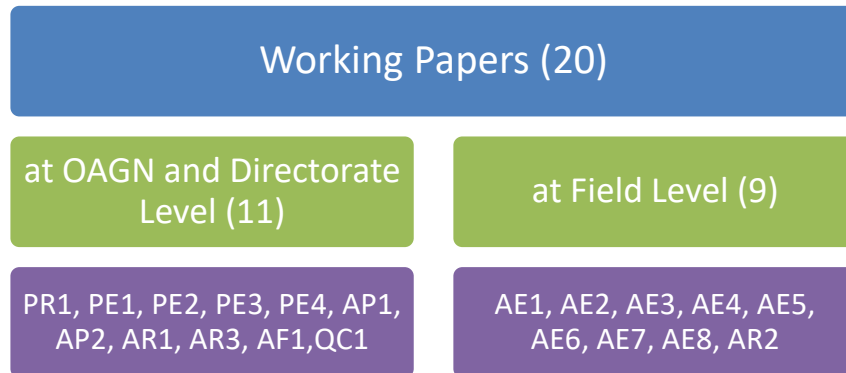
Working Papers

Table of Content

<i>Working Papers Implementation Guide</i>	87
<i>PR 1 Evaluation of Financial Reporting Framework</i>	88
<i>PE 1 Team Composition</i>	90
<i>PE 1 Ethical Declaration</i>	91
<i>PE 3 Record of Activities</i>	92
<i>PE 4 Engagement Letter</i>	93
<i>AP 1 Overall Audit Strategy</i>	96
<i>AP 2 Audit Plan</i>	102
<i>AE 1 Audit Authorisation Letter</i>	104
<i>AE 2 Entry Meeting Minutes</i>	105
<i>AE 3 Test of Controls</i>	106
<i>AE 4 Sampling</i>	107
<i>AE 5 Substantive Procedures</i>	109
<i>AE 6 Other Procedures</i>	111
<i>AE 7 Written Representation</i>	113
<i>AE 8 Exit Meeting Minutes</i>	117
<i>AR 1 Supervisor Review</i>	118
<i>AR 2 Preliminary Audit Report / Management Letter</i>	121
I Process	121
I. PAR/ML Format (at Entity level i.e. financial statement level)	122
II. PAR /ML Format (at Office level i.e. subordinate office / branch)	123
<i>AR 3 Auditor's Report</i>	124
a. Unmodified opinion	124
b. Qualified Opinion – material misstatement	126
c. Qualified Opinion – limitation of scope	128
d. Adverse Opinion	130
e. Disclaimer of Opinion	132
f. Appendix to the auditor's report:	134
<i>AF 1 Audit Follow-up</i>	135
a. Audit Follow up MIS	135
b. Format of auditees requests to settle audit observations	136

c.	OAGN’s letter indicating settlement of audit para.....	136
QC 1	Quality Control Questionnaire.....	137

Working Papers Implementation Guide



Each working papers needs to be appropriated headed as follows

Auditee Information <i>Entity/Office</i>	Name of the Auditee
	Auditee Code
	Financial Year
Preparer Information	Name of the Auditor
	Date of completion

Each working papers needs to be appropriated footed as follows

Reviewer's decision	Approved	Reverted for rework
	Comments / Suggestions / Directions	
Reviewer	Name	Date

Examples are just for illustration

PR 1 Evaluation of Financial Reporting Framework

To be used at entity level (i.e. where financial statements are prepared in accordance with applicable reporting framework)

Assessing acceptability	Assessment conclusions														
1. Is there an applicable financial reporting framework adopted by the entity or government	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%;"></td> <td style="text-align: center;">Yes</td> <td style="width: 50%;"></td> <td style="text-align: center;">No</td> </tr> </table>		Yes		No										
	Yes		No												
2. i) If yes, indicate the name of the FRF adopted and proceed to following questions.	<p>Name of the framework</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="height: 20px;"></td> </tr> </table>														
ii) If no, there is no basis for preparation of the (consolidated) financial statements, auditor shall comment on the circumstances.	<p>Auditor comments:</p> <p><i>[indicate that auditor is required under legal mandate to audit]</i></p>														
3. What is the basis for preparation of (consolidated) financial statements (or financial information if financial statements are not prepared)?	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%;"></td> <td style="text-align: center;">Cash Basis</td> </tr> <tr> <td></td> <td style="text-align: center;">Modified cash basis</td> </tr> <tr> <td></td> <td style="text-align: center;">Modified accrual basis</td> </tr> <tr> <td></td> <td style="text-align: center;">Accrual basis</td> </tr> </table>		Cash Basis		Modified cash basis		Modified accrual basis		Accrual basis						
	Cash Basis														
	Modified cash basis														
	Modified accrual basis														
	Accrual basis														
4. What is the purpose of (consolidated) financial statements being prepared (as applicable)?	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%;"></td> <td style="text-align: center;">General</td> <td style="width: 50%;"></td> <td style="text-align: center;">Special</td> </tr> </table>		General		Special										
	General		Special												
5. Who are the primary users of the (consolidated) financial statements (or financial information if financial statements are not prepared)?	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%;"></td> <td style="text-align: center;">Legislatures</td> </tr> <tr> <td></td> <td style="text-align: center;">Government / executive offices</td> </tr> <tr> <td></td> <td style="text-align: center;">Donors / Lenders</td> </tr> <tr> <td></td> <td style="text-align: center;">Supplier creditors</td> </tr> <tr> <td></td> <td style="text-align: center;">Others (please specify)</td> </tr> </table>		Legislatures		Government / executive offices		Donors / Lenders		Supplier creditors		Others (please specify)				
	Legislatures														
	Government / executive offices														
	Donors / Lenders														
	Supplier creditors														
	Others (please specify)														
6. Is the financial reporting framework 'fair presentation framework' or 'compliance framework'	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%;"></td> <td style="text-align: center;">Fair presentation framework</td> <td style="width: 50%;"></td> <td style="text-align: center;">Compliance framework</td> </tr> </table>		Fair presentation framework		Compliance framework										
	Fair presentation framework		Compliance framework												
7. What do these (consolidated) financial statements (or financial information if financial statements are not prepared) consist of	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%;"></td> <td style="text-align: center;">Statement of financial position</td> </tr> <tr> <td></td> <td style="text-align: center;">Statement of profit or loss</td> </tr> <tr> <td></td> <td style="text-align: center;">Statement of changes in equity</td> </tr> <tr> <td></td> <td style="text-align: center;">Statement of cash flows</td> </tr> <tr> <td></td> <td style="text-align: center;">Accounting polices & Explanatory notes</td> </tr> </table> <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%;"></td> <td style="text-align: center;">Statement of cash receipt and payments</td> </tr> <tr> <td></td> <td style="text-align: center;">Statements of budget comparison</td> </tr> </table>		Statement of financial position		Statement of profit or loss		Statement of changes in equity		Statement of cash flows		Accounting polices & Explanatory notes		Statement of cash receipt and payments		Statements of budget comparison
	Statement of financial position														
	Statement of profit or loss														
	Statement of changes in equity														
	Statement of cash flows														
	Accounting polices & Explanatory notes														
	Statement of cash receipt and payments														
	Statements of budget comparison														

8. Does the financial reporting framework used for preparing the (consolidated) financial statements exhibits these attributes?

	Accounting polices & Explanatory notes
--	--

	Other (please specify)
--	------------------------

	Relevance
	Completeness
	Reliability
	Neutrality
	Understandability

9. **Overall conclusion:** The applicable financial reporting framework exist and is

	Acceptable		Not acceptable
--	------------	--	----------------

10. **Overall Comment (if any)**

--

PE 1 Team Composition

From audit scheduling

From team master data

From team master data

SN	Team Member's name	Position	Financial audit Experience in no. of years	Qualification (highest degree obtained)
	Audit Supervisor			
1				
	Audit team leader			
2				
	Audit team members			
3				
4				
5				
	Experts (if any)			
6				
7				

From team master data

Team Approved by:

Signature / System approval

Name: (System extracted info)

Position: (System extracted info)

Date:..... (System extracted info)

PE 2 Ethical Declaration

*From
standard
template*

I confirm that for the audit work that I have been assigned or allocated to be involved for the audit year :

1. Myself, or any members of my immediate family do not have any financial interest in the audited entity/office.
2. I do not have any business or financial relationship with the audited entity/office or any of its/their officers and employees.
3. I am not, and have not been in the last two financial years, an employee of the audited entity/office. In conducting the audit I will not be reviewing my own work
4. I have not received or I am not due to receive any gifts, donations, hospitality or any other benefits from the audited entity/office or any third person in relation to the audit that could impair my objectivity.
5. I do not have any family or other relationship with any director, officer, and employee of the entity/office under audit that may impair my independence.
6. I have read the OAGN Code of Ethics and understand the requirements of the code in there as far as:
 - I shall exercise due care and perform the audit in a professional manner and to the best of my abilities.
 - I shall perform the audit with honesty, integrity, objectively, impartially, prudence, and political neutrality.
 - My personal conduct shall be accordance to professional behaviour expected of the office that I represent and shall not do or be involved in anything that shall disrepute the office.
 - I shall keep full confidentiality of information obtained during the audit process and shall not disclose such information to third parties except otherwise as explicitly required by the law.

I will immediately inform the office if any circumstance(s) that may change from the above declaration and come to my knowledge, which may have bearing on my compliance of the OAGN Code of Ethics.

Signature / System Approval:

Name:

Designation:

Date:

*From team
master
data*

PE 3 Record of Activities

INPUT
schedule
planning

For Entity level

Audit activities	Metric	Budgeted/Planned	Actual	Variance
Engagement Letter	Date			
Overall Audit Strategy	No. of days			
Audit Authorisation Letter	Date			
Entry Meeting	Date			
Field Work	No. of days			
Exit Meeting	Date			
Report Preparation	No. of days			
PAR	Date			
Response to PAR	Date			
Auditor's Report	Date			

From
NAMS

MIS Report

For audit of office level

MIS Report

Audit activities	Metric	Budgeted/Planned	Actual	Variance
Audit Authorisation Letter	Date			
Entry Meeting	Date			
Field Work	No. of days			
Exit Meeting	Date			
Report Preparation	No. of days			
Draft PAR	Date			
Response to PAR	Date			
Final PAR	Date			

INPUT
schedule
planning

From
NAMS

PE 4 Engagement Letter

To be used at entity level (i.e. where financial statements are prepared in accordance with applicable reporting framework)

[To the appropriate representative of management or those charged with governance of entity whose financial statement is audited]

The objective and scope of the audit

Under the provision of [quote the applicable provision of the law] the Auditor General will have to audit the (consolidated) (consolidated) financial statements of [name of the entity whose financial statement prepared under the applicable reporting framework is being audited], which comprise the [name the individual statements comprising the entire sent of (consolidated) financial statements and the date and period they pertain to]. We are conveying our understanding of this audit engagement by means of this letter.

The objectives of our audit are to obtain reasonable assurance about whether the (consolidated) (consolidated) financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Nepal Government Auditing Standards (NGAS)¹⁹⁵ will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these (consolidated) financial statements.

The responsibilities of the auditor

The audit shall be conducted in accordance NGAS. These standards require that auditors comply with ethical requirements. As part of an audit in accordance with NGAS, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the (consolidated) financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. However, we will communicate to you in writing concerning any significant deficiencies in internal control relevant to the audit of the (consolidated) financial statements that we have identified during the audit.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

¹⁹⁵ Nepal Government Auditing Standards (NGAS) are the standards are substantially based on INTOSAI's International Framework of Professional Pronouncements (IFPP) as adopted by OAGN

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the (consolidated) financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern¹⁹⁶.
- Evaluate the overall presentation, structure and content of the (consolidated) financial statements, including the disclosures, and whether the (consolidated) financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with IFPP.

The responsibilities of management and identification of the applicable financial reporting framework

Our audit will be conducted on the basis that [*management and where appropriate, those charged with governance*] acknowledge and understand that they have responsibility:

- (a) For the preparation and fair presentation of the (consolidated) financial statements in accordance with [*applicable financial reporting framework*];
- (b) For such internal control as the laws require or management determines is necessary to enable the preparation of (consolidated) financial statements that are free from material misstatement, whether due to fraud or error; and
- (c) To provide us with:
 - (i) Access to all information of which the management is aware that is relevant to the preparation of the (consolidated) financial statements such as records, documentation and other matters;
 - (ii) Additional information that we may request from [management] for the purpose of the audit; and
 - (iii) Unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence.

As part of our audit process, we will request from [*management and, where appropriate, those charged with governance*], written confirmation concerning representations made to us in connection with the audit.

We look forward to full cooperation from your staff during our audit. [*Insert other relevant information if required or appropriate*]

The audit entry meeting shall be conducted at the commencement of audit. Amongst others, the contents of the engagement letter will be discussed in the entry meeting.

¹⁹⁶ This para may not be relevant to government and can be reworded or omitted

If the management is aware of fraud and corruption that took place in the entity, they should disclose to the auditors during the audit entry conference or during audit. It is the responsibility of the management to institute adequate system of internal controls to prevent and detect fraud and corruption.

The responsibility for custody and control of documents shall rest with the management. The auditor shall not remove documents from the entity's premises without management's consent. At the end of the audit, the auditors shall handover all the documents to the management.

An audit exit meeting will be conducted on completion of field audit. During the exit meeting, the auditor's report on the (consolidated) financial statements, audit findings along with management's responses will be discussed and finalised.

Reporting

[i.e. report format as per.....]

The form and content of our report may need to be amended in the light of our audit findings.

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our audit of the (consolidated) financial statements including our respective responsibilities.

For Auditor General of Nepal

Signature:
Name:
Designation:
Date:

Acknowledged and agreed on behalf of [Name of entity whose financial statement is audited]

Signature:
Name:
Designation:
Date:

AP 1 Overall Audit Strategy (Entity Audit Plan)

To be used at entity level (i.e. where financial statements are prepared in accordance with applicable reporting framework)

1. Understanding the entity and its environment		
1.1. General information	Address	
	Contact person	
	Geographic locations	
	Type of the entity	
1.2. Management structure	Key management	
	Organisational structure	
	Departments / Divisions	
	Offices / Branches	
	Project offices (if any)	
	Other if any	
1.3. Legal framework – list of laws and regulations	Having direct effect on fin st.	
	Not having direct effect on fin st	
1.4. Operational environment	Entity’s mandate – core function	
	Objectives & strategies	
	Programme areas / periodic plan	
	Budget constraints	
	Other (if any)	
1.5. Other relevant considerations	Litigations and claims	
	Outsourced functions	
	Related parties	
	Use of expert’s work	
	Parliamentary directives	
	Media reports	
	Audit arrears	
	Audit follow up	
	Other (if any)	
1.6. Transactions and Balances	Audit components	
	Material financial figures (interim reports)	
	Budgets	
	Other	
1.7. Objective of the audit	Audit Objective	
	Other: such as audit area and basis of audit	

2. Identifying risk of material misstatements including risk of fraud								
2.1. At financial statement level			Control environment deficiencies					
			Management integrity concerns					
			Nature of activities & transactions					
			Accounting policies and disclosures					
			Others					
2.2. At assertion level								
Area/ Risk	Occurrence	Cut-off	Completeness	Accuracy	Classification	Presentation	Existence	Right and obligations
2.3. Risk of misstatements is greater			Non routine transactions					
			Complex transaction & calculations					
			Greater management intervention					
			Other					
2.4. Risk of fraud (if known and identified)			Manual process intervention					
			Significant judgement used					
			Management override of controls					
			Unusual and unexpected relations					
			Information on fraud possibilities - whistle-blower - media - oversight body's investigation					
2.5. Risk of non-compliance and risk of performance deficiencies (In line with OAGN PARF)			Risks of non-compliances					
			Risks and performance deficiencies					
3. Identify internal controls								
3.1. Control environment <i>[Note: Control processes and procedures in governments are generally defined by laws, regulation]</i>			Defined roles and responsibilities					
			Control design and implementation					
			Existence of control framework					

<i>and similar authorities.]</i>	Control processes and procedures																																	
3.2. Management attitude	Past incidence of control override Management’s respect for IA Control monitoring mechanism Extent of management’s use of discretion																																	
3.3. Oversight / Monitoring of operations	Up to date procedure manuals Physical and financial targets Performance measures in place Timely reconciliations done																																	
3.4. Internal Audit	Independence and objectivity Competence Due professional care Scope of IA Documentation Other information (if any)																																	
3.5. IT controls	Major IT systems in use Financial and non-financial system interlink Application controls Administrations controls Others																																	
4. Materiality																																		
4.1. Determining Materiality - for financial statement as a whole																																		
4.1.1. Overall (planning) materiality at financial statement as a whole Application Guide <ul style="list-style-type: none"> Decide on the benchmark (select one benchmark) Decide on the % to be used (<i>IDI suggests 0.5-2% for public sector audit</i>) Provide justification for using the benchmark and % Consideration for qualitative materiality This materiality shall be the basis for performance materiality This materiality can be used to identify risk area 	i) Quantitative <table border="1" data-bbox="719 1413 1356 1816"> <thead> <tr> <th>Benchmark (choose one)</th> <th>Amount</th> <th>% Used</th> <th>Materiality</th> </tr> </thead> <tbody> <tr><td>Revenue</td><td></td><td></td><td></td></tr> <tr><td>Expenditure</td><td></td><td></td><td></td></tr> <tr><td>Net Revenue</td><td></td><td></td><td></td></tr> <tr><td>Net Expenditure</td><td></td><td></td><td></td></tr> <tr><td>Total Assets</td><td></td><td></td><td></td></tr> <tr><td></td><td></td><td></td><td></td></tr> <tr><td></td><td></td><td></td><td></td></tr> </tbody> </table> Justification for use of the particular benchmark: Justification for % Used: ii) Qualitative Consideration for Qualitative aspects (if any):	Benchmark (choose one)	Amount	% Used	Materiality	Revenue				Expenditure				Net Revenue				Net Expenditure				Total Assets												
Benchmark (choose one)	Amount	% Used	Materiality																															
Revenue																																		
Expenditure																																		
Net Revenue																																		
Net Expenditure																																		
Total Assets																																		

<ul style="list-style-type: none"> This materiality can be used for evaluating misstatements and determining tolerable error 	<p>Impact of this materiality on audit (how this will be used):</p>					
<p>4.1.2. Performance materiality for financial statement as a whole</p> <p>Application guide:</p> <ul style="list-style-type: none"> Overall materiality is taken as the basis Determine % (<i>IDI suggests 60-70% for public sector audit</i>) considering inherent and control risk i.e. if: <ul style="list-style-type: none"> High: 60% Medium: 70% Low: 80% (<i>ICAEW suggest 50-75% for ICAN</i>) Auditor can still set lower performance materiality considering the qualitative aspects. This will be used to select transaction at FS level 	<p>Overall Materiality</p>	<p>% Used</p>	<p>Performance Materiality</p>	<p>Justification for % Used:</p> <p>Consideration for Qualitative aspects:</p>		
<p>4.2. Determining Materiality – for particular class of transactions, account balances or disclosures (COTABD)</p>						
<p>4.2.1. Materiality for particular class of transactions, account balances or disclosures</p> <p>Application guide</p> <ul style="list-style-type: none"> <i>Use this if the auditor CHOOSES THE OPTION of determining materiality for individual COTABD considering specific risk or circumstances for the particular area / issue</i> If amount is not available auditor may use judgement in determining the overall materiality for COTABD This will be the basis for performance materiality This will be used to evaluate misstatement in the COTABD 	<p>Class / Account</p>	<p>Amount</p>	<p>% Used</p>	<p>Materiality</p>	<p>e.g. Travel</p> <p>e.g. Procurement</p> <p>Account head X</p> <p>Class of transaction Y</p> <p>Taxpayers files</p> <p>Justification for class and sensitivity:</p> <p>Justification for % Used:</p> <p>Consideration for Qualitative aspects:</p>	
<p>4.2.2. Performance materiality for class of transactions, account balances or disclosures</p> <p>Application guide:</p> <ul style="list-style-type: none"> Overall materiality is taken as the basis 	<p>Class / Account</p>	<p>Overall Materiality</p>	<p>% Used</p>	<p>Materiality</p>	<p>e.g. Travel</p> <p>e.g. Procurement</p> <p>Account head X</p>	

<ul style="list-style-type: none"> Determine % (<i>IDI suggests 60-70% for public sector audit</i>) considering inherent and control risk i.e. if: <ul style="list-style-type: none"> High: 60% Medium: 70% Low: 80% <i>(ICAEW suggest 50-75% for ICAN)</i> Auditor can still set lower performance materiality considering the qualitative aspects. This will be used to select transactions for the particular COTABD 	<table border="1"> <tr> <td>Class of transaction Y</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Taxpayer's file</td> <td></td> <td></td> <td></td> </tr> <tr> <td colspan="4">Justification for % Used:</td> </tr> <tr> <td colspan="4">Consideration for Qualitative aspects:</td> </tr> </table>	Class of transaction Y				Taxpayer's file				Justification for % Used:				Consideration for Qualitative aspects:			
Class of transaction Y																	
Taxpayer's file																	
Justification for % Used:																	
Consideration for Qualitative aspects:																	

5. Analytical procedures at planning stage

Account Codes	Budget	Actual	Previous Yr	Variance		Risk Indication
	(A)	(B)	(C)	(A) Vs (B)	(B) Vs (C)	

6. Assessment of entity's risk assessment process

6.1. Assessment of risk of material misstatement at financial statement level

Risk of material misstatement at FS level	Assertions affected	Possibility of fraud risk (Y/N)	Reason for fraud risk	Risk arising from control deficiencies
1	2	3	4	5

6.2. Assessment of risk of material misstatement at assertion level

Significant class of transactions or account balances	Assertions affected	Inherent risks			Significance of risk (Y/N)	Control Risk (H/M/L)
		Probability (H/M/L)	Impact (H/M/L)	Combined (H/M/L)		
1	2	3	4	5	6	7

6.3. Assessment of risk of non-compliance and performance deficiencies

Area	Assertions affected	Inherent risks			Significance of risk (Y/N)	Control Risk (H/M/L)
		Probability (H/M/L)	Impact (H/M/L)	Combined (H/M/L)		
1	2	3	4	5	6	7

Conclusion:

	Audit Area	Risks affecting the entity	Auditor's overall response to risk of i. material misstatements (ROMM); ii. non-compliances; and iii. performance deficiencies.
1.			
2.			
3.			
4.			

AP 2 Audit Plan (Office Audit Plan)

Audit Plan in the form of - Audit Programme / Audit Checklist

1. Review of control environment	
1.1. Risk Area –	
Potential Audit Risk:	
Extent Of Procedure to address that potential risk*:	
Justification For Judgement Of Extent:	
Associated Audit criteria (Checklist):	
1.	
2.	
3.	
2. Detail Review	
Risk Group	Nature of Risk group
2.1. Risk Area –	
Potential Audit Risk:	
Extent Of Procedure to address that potential risk*:	
Justification For Judgement Of Extent:	
Associated Audit criteria (Checklist):	
1.	
2.	
3.	
2.2. Risk Area –	
Potential Audit Risk:	
Extent Of Procedure to address that potential risk*:	
Justification For Judgement Of Extent:	
Associated Audit criteria (Checklist):	
1.	
2.	
3.	
2.3. Risk Area –	
Potential Audit Risk:	
Extent Of Procedure to address that potential risk*:	
Justification For Judgement Of Extent:	
Associated Audit criteria (Checklist):	
1.	
2.	

3.	
2.4. Risk Area – [add risk area as required from the strategic (overall) plan]	
2.5. Risk Area – [add risk area as required from the strategic (overall) plan]	

AE 1 Audit Authorisation Letter

To

[insert the entity's/office's name]

[insert the entity's/office's address]

Date: [insert date]

Subject: Audit Authorisation Letter

Dear Chief of *Entity/Office*

Office of Auditor General of Nepal has planned the audit of [insert the entity's/office's name] to fulfil its obligations under the Article 241 of Constitution of Nepal and Audit Act, 2075. The audit shall commence from [insert date] and shall be undertaken by the following team.

Name of the auditor	Designation	Team designation
1.		Supervisor
2.		Team Leader
3.		Team Member
4.		Team Member
5.		Team Member

It is requested through this letter that auditors are provided

- a. access to all information of which the *Entity/Office* is aware that is relevant for the audit such as records, documentation and other matters;
- b. additional information that auditors may request from for the purpose of the audit; and
- c. unrestricted access to persons within the entity/office, or outside the [entity/office], from whom the auditor determines it necessary to obtain audit evidence.
- d. Other matters if any (please specify)

Regards

Signature

Name:

Designation:

AE 2 Entry Meeting Minutes

1. Date of the meeting				
2. Location of the meeting				
3. Present audit team members	Name		Designation	
	1.			
	2.			
	3.			
4. Present auditee personnel	Name		Designation	
	1.			
	2.			
	3.			
5. Issues discussed				
5.1. Introduction of audit team members				
5.2. Solicit management concerns (if any)	1. 2. 3.			
5.3. Determine appropriate person within the auditee with whom to communicate	Name	Phone No	Email	Related area
	1.			
	2.			
	3.			
5.4. Matters needs to be communicated	<ul style="list-style-type: none"> • Responsibilities of the auditee • Auditor's responsibilities • Planned scope and timing of the audit • Auditor's independent • Reporting forms and mechanisms • Written representation from management • Others 			
5.5. Establish communication process	1. Process			
	2. Form			
	3. Timing			
	4. Adequacy			

Print and sign by both the parties

AE 3 Test of Controls

1. Reliance on previous year Operating Effectiveness (OE) testing of controls (access to previous year's assessment)		Yes		No
<ul style="list-style-type: none"> • If NO proceed directly to OE testing procedure • If YES proceed to STEP 3 				
2. If YES to reliance on previous OE testing of controls, is there a significant change in controls		Yes		No
<ul style="list-style-type: none"> • If YES proceed directly to OE testing procedure • If NO proceed to substantive procedures directly 				
3. Operating Effectiveness (OE) of controls				
3.1. STEP 1: Trace risks and control activities from the planning document				
	Risk <ul style="list-style-type: none"> • Risk of misstatements • Risk of non-compliances • Risk of performance deficiencies 	Control activity addressing the risk	Control testing to be performed	Relevant assertion addressed
1.				
2.				
3.				
4.				
3.2. STEP 2: Perform test of the controls				
	Control being tested	Sample for control testing	Observation	Reliability of control (H/M/L)
1.				
2.				
3.				
4.				
4. Conclusion				
4.1. If the test of control indicates circumstances for revision or updating to the audit plan		Yes		No
<ul style="list-style-type: none"> • If YES request for changes in the audit plan to the appropriate authority • If NO proceed to conclusion and substantive procedures directly 				
4.2. Final Conclusion:				
Notes for sampling for substantive procedures: <i>[Note: If control reliability is high the sampling size will be low and vice versa]</i>				
Overall conclusion of OE testing procedures:		Comment:		

AE 4 Sampling

1. STEP 1 For each office determine general component performance materiality

COMPONENT (OFFICE) PERFORMANCE MATERIALITY Application guide: <ul style="list-style-type: none"> • Performance materiality at the financial statement level is taken as the basis • Auditor uses judgement to use the percentage, which may or may not be the arithmetic proportion of office as compared with the entity • Auditor can still set lower component performance materiality considering the qualitative aspects. • This will be used to select transactions 	Performance materiality FS	% Used	Component (Office) Performance Materiality
	Justification for % Used:		
	Consideration for Qualitative aspects:		

2. STEP 2 For each COTABD identified separately determined component performance materiality for each COTABD

COMPONENT (OFFICE) PERFORMANCE MATERIALITY Application guide: <ul style="list-style-type: none"> • Performance materiality at the COTABD level is taken as the basis • Auditor uses judgement to use the percentage, which may or may not be the arithmetic proportion of office as compared with the entity • Auditor can still set lower component performance materiality considering the qualitative aspects. • This will be used to select transactions 	Performance materiality COTABD	% Used	Component (Office) Performance Materiality
	Justification for % Used:		
	Consideration for Qualitative aspects:		

3. STEP 2 For each audit area determine the sample

Audit Area: Procurement						
	Transactions / Documents	No. of transactions/ documents	High Value (Material)	Key Items (Judgemental)	Remaining Population subjected to sampling	Total to be tested
			items/transactions above a particular monetary value which the auditor decides to examine on a 100% basis (e.g. all items above quantitative materiality level needs to be tested)	Auditor using judgment may decide that some items due to their nature are prone to error or important warranting a 100% audit (qualitatively material)	Apply sampling techniques, for example random number table, to select items to be tested from among remaining population after high value and key items (85 items in the example), say 17 items	
					Sampling techniques: from random number table	
	e.g. procurement files	100	2 (out of 2)	11 (out of 11)	17 (out of 85 i.e. 20%)	30
1.						
2.						
3.						
4.						

Application guide

- 30% comes from AP 2
- Test of control considers revision of planned extent
- If no revision required, 20% selection of the remaining is required to reach 30% (comes from test of control conclusion)
- High value and Key item are to be tested 100% irrespective of anything
- For quantitative materiality
 - If the audit area is covered by the COTABD materiality pulled component performance materiality for the particular area/COTABD
 - If the audit area is other than COTABD, the general component performance materiality is pulled

AE 5 Substantive Procedures

Application guide that this is related with 1.1, 1.2, 1.3 2 and 3 From AP 2
 (one sheet for each COTABD or each issue or each area)

1. Is the class of transaction, account balance or disclosure (COTABD), including issue, SIGNIFICANT?	<input type="checkbox"/> Yes	<input type="checkbox"/> No	<ul style="list-style-type: none"> If NO proceed directly proceed to minimum substantive procedures in 3 		
2. COTABD and ISSUE – SIGNIFICANT and MATERIAL <i>(if answer is YES in 1)</i>					
2.1. Is Analytical Procedure Appropriate?	<input type="checkbox"/> Yes	<input type="checkbox"/> No	<ul style="list-style-type: none"> If NO proceed directly proceed to Test of Detail If YES proceed to directly to analytical procedures 		
2.2. Perform Test of Details <i>(if answer is NO in 2.1)</i>					
	<ul style="list-style-type: none"> High Value Key Item Sample tested 	Audit Procedure	Observation	Conclusion	To be include in memo / PAR YES/ NO
1.	File 1	What to see will be guided by AP 2	What was observed 1. Para 1 2. Para 2 3. Para 3	Audit reportable matter	yes
4.	File 2	- Do -	No specific finding	Nothing to report	no
5.	File 3				
6.	File 1				
7.	File 1				
8.	File 1				
9.	File 1				
10.	File 1				
2.3. Perform Analytical Procedure <i>(if answer is YES in 2.1)</i>					
STEP					
1.	Identify amount and audit objectives	<i>[e.g. completeness of the rent]</i>			
2.	Develop expectation	<i>[e.g. rent is expected to be XXX]</i>			
3.	Determine threshold	<i>[e.g. variance less than 5% is acceptable]</i>			
4.	Identify significant differences	<i>[e.g. variances 7.5%]</i>			
5.	Investigate differences	<i>[Discuss with management and obtain explanations]</i>			
6.	Evaluate findings and conclude				
3. Minimum substantive procedures: for NOT significant COTABD <i>(if answer is NO in 1)</i>					

	Not significant COTABD	Minimum Substantive Procedure	Conclusion	To be include in memo / PAR YES/ NO
1.				
2.				
3.				
4.				
5. Conclusion:				
Overall conclusion from performing these substantive procedures		Comment:		
* please indicate here if this may have any bearing while expressing opinion on the financial statements				

AE 6 Other Procedures

1. Opening balances	<ol style="list-style-type: none"> 1. Prior period closing balances are correctly brought forward 2. Opening balance reflect appropriate accounting policies 3. Perform other required procedures to obtain appropriate evidences 	
2. Inventory	<p>Assess management’s physical inventory count procedures</p> <ol style="list-style-type: none"> 1. Evaluate management’s instructions 2. Review count procedures 3. Inspect inventory 4. Perform test count 5. Perform test reconciliations 	
3. Litigations and claims (if applicable)	<ol style="list-style-type: none"> 1. Enquire with management and/or legal counsel 2. Review minutes 3. Review legal expenses 4. Seek representation (if required) 	
4. Segment information (if applicable)	<ol style="list-style-type: none"> 1. Identification and determination of segments in accordance with financial reporting framework 2. Application of segmental thresholds 3. Assumptions used in segmental reporting 4. Appropriateness of presentation and disclosures 	
5. Related parties	<ol style="list-style-type: none"> 1. Identify the related parties in accordance with the financial reporting framework 2. Seek to identify related party transactions <ol style="list-style-type: none"> a. Previously disclosed and identified b. Previously not disclose and not identified 3. Assess the effect of related party transactions 4. Assess adequacy of disclosures 5. Seek representation (if required) 	
6. External confirmation (usually used for account balances, more applicable for SoEs, can also be used for transaction confirmation for government offices)	<ol style="list-style-type: none"> 1. Is External Confirmation required to confirm any balances or transaction. 2. Direct confirmation or indirect confirmation used 3. Confirmation sent by auditor or auditee 4. Conclusion reached 	
7. Subsequent events (if applicable)	<p>Identify the following events and their treatment in the (consolidated) financial statements in accordance with applicable reporting framework</p> <ol style="list-style-type: none"> 1. Events that provide evidence of conditions that existed on the date of (consolidated) financial statements (ADJUSTING EVENTS) 2. Events that provide evidence of conditions that arose after the date of (consolidated) financial statements (NON-ADJUSTING EVENTS) 	
8. Going concern <i>[Note: The going-concern concept</i>	<p>Consider and conclude whether there are events or conditions that represent a material uncertainty about the</p>	

<i>may have little or no relevance for public-sector entities such as those funded through appropriations on the government budget.]</i>	audited entity's intention and ability to continue as a going concern													
9. Comparative information	<p>Comparative information included in the (consolidated) financial statements has been presented, in all material respects, in accordance with the applicable financial reporting framework</p> <p>1. Corresponding figures</p> <ul style="list-style-type: none"> • amounts and other disclosures of the prior period included as an integral part of the current period (consolidated) financial statements. • Unresolved previous period report modification matter • Prior period not audited <p><i>[Note: Auditor's opinion does not refer to the corresponding figures]</i></p> <p>2. Comparative (consolidated) financial statements</p> <ul style="list-style-type: none"> • the auditor's opinion shall refer to each period for which (consolidated) financial statements are presented and on which an audit opinion is expressed 													
10. Other information	<p>read all other information in an entity's annual report / other reports and consider whether there are any material inconsistencies or material misstatement of fact with the audited (consolidated) financial statements</p> <p><i>[Note: The going-concern concept may have little or no relevance for public-sector entities such as those funded through appropriations on the government budget.]</i></p>													
11. Estimate	<p>Consider the appropriateness of the estimates used in preparation of financial statements.</p> <p><i>[Note: estimates may not be relevant for the public-sector entities preparing (consolidated) financial statements on cash basis under NPSAS, such as those funded through appropriations on the government budget.]</i></p>													
12. Using expert's work	<p>When expert's service is considered as the evidence evaluate the following</p> <p>Independence of the expert</p> <p>Due professional care</p> <p>Competence</p> <p>Extent of expert's work that can be relied for audit</p> <p>Any other information</p>													
Reportable conclusion (if any observation is reportable in PAR)	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 5%;"></th> <th style="width: 75%;">Description</th> <th style="width: 20%;">Amount (NPR)</th> </tr> </thead> <tbody> <tr> <td>1</td> <td></td> <td></td> </tr> <tr> <td>2</td> <td></td> <td></td> </tr> <tr> <td>3</td> <td></td> <td></td> </tr> </tbody> </table>		Description	Amount (NPR)	1			2			3			
	Description	Amount (NPR)												
1														
2														
3														

AE 7 Written Representation

a. AT ENTITY LEVEL

[Entity's Letterhead]

Date:

To the Auditor General

This representation letter is provided in connection with your audit of the (consolidated) financial statements of [name of the entity] for the year ended [insert the appropriate date] for the purpose of expressing an opinion as to whether the (consolidated) financial statements are presented fairly, in all material respects, (or give a true and fair view) in accordance with International Financial Reporting Standards.

We confirm that to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

(consolidated) financial statements

- We have fulfilled our responsibilities, as set out in the terms of the audit engagement dated [insert date], for the preparation of the (consolidated) financial statements in accordance with [insert applicable financial reporting framework]; in particular the (consolidated) financial statements are fairly presented [or give a true and fair view] in accordance therewith.
- Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable [if relevant].
- Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of [insert applicable financial reporting framework].
- All events subsequent to the date of the (consolidated) financial statements and for which [insert applicable financial reporting framework] require adjustment or disclosure have been adjusted or disclosed [if relevant].
- The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the (consolidated) financial statements as a whole. A list of the uncorrected misstatements is attached to the representation letter. [if relevant]
- [Any other matters that the auditor may consider appropriate]

Information Provided

- We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the (consolidated) financial statements, such as records, documentation and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
- All transactions have been recorded in the accounting records and are reflected in the (consolidated) financial statements.
- We have disclosed to you the results of our assessment of the risk that the (consolidated) financial statements may be materially misstated as a result of fraud.

- We have disclosed to you all information in relation to [or There have been no] fraud or suspected fraud that we are aware of and that affects the entity and involves:
 - Management;
 - Employees who have significant roles in internal control; or
 - Others where the fraud could have a material effect on the (consolidated) financial statements.
- We have disclosed to you all information in relation to [allegations of fraud, or suspected fraud], affecting the entity's (consolidated) financial statements, communicated by employees, former employees, analysts, regulators or others. [if relevant]
- We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing (consolidated) financial statements.
- We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
- [Any other matters that the auditor may consider appropriate]

For Management

Signature:

Name:

Designation:

b. At office level

[Office Letterhead]

Date:

To the Auditor General

This representation letter is provided in connection with the financial audit for the year ended [*insert the appropriate date*].

We confirm that to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

- We have fulfilled our responsibilities, for the preparation of the financial reports maintaining financial records in accordance with [*insert applicable financial legal requirement*]
- Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable [*if relevant*].
- Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of [*insert applicable financial reporting framework*].
- All events subsequent to the date of the (consolidated) financial statements and for which [*insert applicable financial reporting framework*] require adjustment or disclosure have been adjusted or disclosed [*if relevant*].
- [*Any other matters that the auditor may consider appropriate*]

Include here

- Revenue
- Expenditures
- Deposits
- Funds
-

Information Provided

- We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial reports, such as records, documentation and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the office from whom you determined it necessary to obtain audit evidence.
- All transactions have been recorded in the accounting records and are reflected in the financial reports.
- We have disclosed to you the results of our assessment of the risk that the (consolidated) financial statements may be materially misstated as a result of fraud.
- We have disclosed to you all information in relation to [*or There have been no*] fraud or suspected fraud that we are aware of and that affects the office and involves:
 - Management;
 - Employees who have significant roles in internal control; or
 - Others where the fraud could have a material effect on the (consolidated) financial statements.

- We have disclosed to you all information in relation to [allegations of fraud, or suspected fraud], by employees, former employees, analysts, regulators or others. [if relevant]
- We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing (consolidated) financial statements.
- We have disclosed to you the identity of the office's related parties and all the related party relationships and transactions of which we are aware.
- [Any other matters that the auditor may consider necessary]

For Management

Signature:

Name:

Designation:

AE 8 Exit Meeting Minutes

1. Date of the meeting			
2. Location of the meeting			
3. Present audit team members	Name	Designation	
	1.		
	2.		
	3.		
4. Present auditee personnel	Name	Designation	
	1.		
	2.		
	3.		
5. Issues discussed			
5.1. Logistic and management feedbacks by the auditors	<ol style="list-style-type: none"> 1. 2. 3. 		
5.2. Concerns raised by the management relating to audit	<ul style="list-style-type: none"> • • • 		
6. Issues discussed <i>(from: log of findings, those findings that are pending after managements' explanation and clarification during audit and management's response to the memos (audit queries) raised and circulated to the auditee)</i>	Findings	Management clarification	Auditor's decision
	1.		
	2.		
	3.		
	4.		
	5.		
	6.		
	7.		

Print and sign by both the parties

AR 1 Supervisory Review

- a. At Entity level (i.e. financial statement where audit opinion is expressed)
[~ ministry]

<p>1. Evaluation of misstatement</p> <p>Application guide:</p> <ul style="list-style-type: none"> Can be more than one COTABD depending on the COTABD materiality used 			Amount
	Total amount of misstatement in classes of transactions/accounts balance (A)		
	The accumulated misstatement corrected (B)		
	Final accumulated uncorrected misstatements C= (A)-(B)		
	Materiality for financial statement as a whole (D)		
	Misstatements (C)		
	Conclude based on auditor's judgements of acceptable tolerable error:		
	Materiality for COTABD (X)		
	Misstatement in COTABD (Y)		
	Conclude based on auditor's judgements of acceptable tolerable error:		
<p>2. Overall evaluation of uncorrected misstatement & ascertaining impact on (consolidated) financial statements</p>			
Is the individual uncorrected misstatement for the class of transaction/account balances material using the materiality level set for such class of transaction/account balance			
If the answer is YES, ascertain the impact on the class of transactions/account balance (e.g. overstatement or understatement of income, expenditure, etc.)			
Are the aggregated uncorrected misstatements material using the overall materiality? (Yes/No)			
If the answer is YES, ascertain the impact on the (consolidated) financial statements as a whole (e.g. overstatement or understatement of income, expenditure, etc.)			
If the answer is NO, are the misstatements by nature material (state, with reason, if misstatements by nature are material and have an impact on the presentation of the (consolidated) financial statements)			
3. Are the results/ conclusions drawn from the Audit consistent with the Reviewer's knowledge of business	Yes /No	Remarks	
4. Are fluctuations or relationship of elements of financial statement consistent with other information available with the Reviewer	Yes /No	Remarks	
5. If any inconsistency with the other information, have those been investigated by	Yes /No	Remarks	

enquiry with the management and performing other audit procedures	
---	--

b. At all office level (where PAR is issued)

(subordinate offices / branches)

[the underlying hierarchies]

Supervisor should review whether		
	Yes/No/NA	Comments / Remarks
1. The work has been performed in accordance with professional standards and applicable legal and regulatory requirements		
2. Significant matters have been raised for further consideration		
3. Appropriate consultations have taken place and the resulting conclusions have been documented and implemented		
4. There is a need to revise the nature, timing and extent of work performed		
5. The work performed supports the conclusions reached and is appropriately documented		
6. The evidence obtained is sufficient and appropriate to support the report		
7. The objectives of the engagement procedures have been achieved.		

AR 2 Preliminary Audit Report

I Process

a. At Entity level (i.e. financial statement level) [~ministry]

1. Financial Audit related issues [refer to OAGN Audit Restructuring Framework]						
	Audit Area	Observation Type • Evidence not submitted • Irregularity • Advances • Others	Observation description	Amount involved (if any)	Management Response	Status of observation • Resolved • Not Resolved • Resolved but to be recorded
1.						
2.						
3.						

b. At Office level (i.e. subordinate office / branch)

1. Financial Audit related issues [refer to OAGN Audit Restructuring Framework]						
	Audit Area	Observation Type • Evidence not submitted • Irregularity • Advances • Others	Observation description	Amount involved (if any)	Management Response	Status of observation • Resolved • Not Resolved • Resolved but to be recorded
1.						
2.						
3.						
2. Performance Audit related issues [refer to OAGN Audit Restructuring Framework]						
	Audit Area	Observation Type • To be recovered • Irregularity • Advances • Others	Observation description	Amount involved (if any)	Management Response	Status of observation • Resolved • Not Resolved • Resolved but to be recorded
4.						
5.						
6.						
3. Compliance Audit related issues [refer to OAGN Audit Restructuring Framework]						
	Audit Area	Observation Type • To be recovered • Irregularity • Advances • Others	Observation description	Amount involved (if any)	Management Response	Status of observation • Resolved • Not Resolved • Resolved but to be recorded
7.						
8.						
9.						

I. PAR Format (at Entity level i.e. financial statement level)

To
 Name of the Entity

We have conducted the audit of the (consolidated) financial statements of [Name of the Entity (at financial statement level)] for the financial year

Following are our observations

Financial Audit related issues [<i>refer to OAGN Audit Restructuring Framework</i>]				
	Audit Area	Observation Type	Observation description	Amount involved (if any)
		<ul style="list-style-type: none"> • Evidence not submitted • Irregularity • Advances • Others 		
1.				
2.				
3.				

Regards

Signatory

II. PAR Format (at Office level i.e. subordinate office / branch)

To
Name of the Office

We have conducted the audit of the [Name of the Office] for the final year

Following are our audit observations

1. Financial Audit related issues [refer to OAGN Audit Restructuring Framework]				
	Audit Area	Observation Type	Observation description	Amount involved (if any)
		<ul style="list-style-type: none"> • Evidence not submitted • Irregularity • Advances • Others 		
1.				
2.				
3.				
2. Performance Audit related issues [refer to OAGN Audit Restructuring Framework]				
	Audit Area	Observation Type	Observation description	Amount involved (if any)
		<ul style="list-style-type: none"> • To be recovered • Irregularity • Advances • Others 		
4.				
5.				
6.				
3. Compliance Audit related issues [refer to OAGN Audit Restructuring Framework]				
	Audit Area	Observation Type	Observation description	Amount involved (if any)
		<ul style="list-style-type: none"> • To be recovered • Irregularity • Advances • Others 		
7.				
8.				
9.				

Regards

Signatory

AR 3 Auditor's Report

a. Unmodified opinion

AUDITOR GENERAL'S REPORT ON FINANCIAL STATEMENTS OF [ENTITY'S NAME]

To the [addressee as required by the law or as appropriate]

Report on the Audit of the (consolidated) financial statements

Opinion

We have audited the (consolidated) financial statements of [name of the entity whose financial statement is audited], which comprise [individually list the financial statement, the date they relate to] and notes to the (consolidated) financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying (consolidated) financial statements [(present fairly, in all material respects) OR (give a true and fair view of)] of the financial position of the [name of the entity whose financial statement is audited] as at [insert date], and (of) its financial performance and its cash flows for the year then ended in accordance with [insert applicable financial reporting framework e.g. NPSAS / NFRS / special framework] and [relevant legal and regulatory requirements, if applicable]

Basis for Opinion

We conducted our audit in accordance with Nepal Government Auditing Standards (NGAS)¹⁹⁷ and our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the (consolidated) financial statements* section of our report. We are independent of the [insert Entity such as: Ministry, Local Level, Committee, Corporation, Company Project etc. as appropriate] in accordance with the OAGN Code of Ethics together with the ethical requirements that are relevant to our audit of the (consolidated) financial statements under OAGN Code of Conduct, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the OAGN Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter (if any)

We draw attention to [Refer to the place in the financial statement e.g. in the note] of the (consolidated) financial statements, [and describe the matter on which auditor intends to draw the attention of the user under ISSAI 2706]. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the (consolidated) financial statements of the current period. These matters were addressed in the context of our audit of the (consolidated) financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

[Description of each key audit matter in accordance with ISSAI 2701.]

¹⁹⁷ Nepal Government Auditing Standards (NGAS) are the standards are substantially based on INTOSAI's International Framework of Professional Pronouncements (IFPP) as adopted by OAGN

Other Information (if any)

[Report material performance issues identified during the audit in addition to matters required under ISSAI 2720]

Responsibilities of Management and Those Charged with Governance for the (consolidated) financial statements

Management is responsible for the preparation and fair presentation of the (consolidated) financial statements in accordance with *[applicable financial reporting framework]*, and for such internal control as management determines is necessary to enable the preparation of (consolidated) financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the (consolidated) financial statements, management is responsible for assessing the *[insert the Entity's]* ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. *[Note: include only if is applicable or relevant to a government entity]*

Those charged with governance are responsible for overseeing *[insert the Entity's]* financial reporting process.

Auditor's Responsibilities for the Audit of the (consolidated) financial statements

Our objectives are to obtain reasonable assurance about whether the (consolidated) financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with INTOSAI IFPP will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these (consolidated) financial statements.

Other responsibilities of the auditor and description of audit process under NGAS are given in *[give link address to the OAGN website where such document is maintained under ISSAI 2700.41(b)]*

Report on Other Legal and Regulatory Requirements (if required)

[Report the material compliance issues identified during the course of the audit, those not have direct and material effect on financial amounts and disclosures in addition to auditor's other reporting responsibilities prescribed by laws and regulations]

Signature

Name: *[name of the signatory]*

Designation: *[position of the signatory]*

[Insert place]

Date: *[insert date]*

b. Qualified Opinion – material misstatement

AUDITOR GENERAL'S REPORT ON FINANCIAL STATEMENTS OF [ENTITY'S NAME]

To the [addressee as required by the law or as appropriate]

Report on the Audit of the (consolidated) financial statements

Qualified Opinion

We have audited the (consolidated) (consolidated) financial statements of [name of the entity whose financial statement is audited], which comprise [individually list the financial statement, the date they relate to] and notes to the (consolidated) financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying (consolidated) financial statements [(present fairly, in all material respects) OR (give a true and fair view of)] of the financial position of the [name of the entity whose financial statement is audited] as at [insert date], and (of) its financial performance and its cash flows for the year then ended in accordance with [insert applicable financial reporting framework e.g. NPSAS / NFRS / special framework] and [relevant legal and regulatory requirements, if applicable]

Basis for Qualified Opinion

[Describe the qualification in this para pertaining to the misstatement, the reason, i.e. the departure from the applicable financial reporting framework or legal requirements in the (consolidated) financial statements. Also include the amount of qualification and quantified impact of the qualification, to the extent practicable, along with the qualitative description]

We conducted our audit in accordance with Nepal Government Auditing Standards (NGAS)¹⁹⁸ and our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the (consolidated) financial statements* section of our report. We are independent of the [insert Entity such as: Ministry, Local Level, Committee, Corporation, Company Project etc. as appropriate] in accordance with the OAGN Code of Ethics together with the ethical requirements that are relevant to our audit of the (consolidated) financial statements under OAGN Code of Conduct, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the OAGN Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter (if any)

We draw attention to [Refer to the place in the financial statement e.g. in the note] of the (consolidated) financial statements, [and describe the matter on which auditor intends to draw the attention of the user under ISSAI 2706]. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the (consolidated) financial statements of the current period. These matters were addressed in the context of our audit of the (consolidated) financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Basis for Qualified Opinion* section we have determined the matters described below to be the key audit matters to be communicated in our report.

¹⁹⁸ Nepal Government Auditing Standards (NGAS) are the standards are substantially based on INTOSAI's International Framework of Professional Pronouncements (IFPP) as adopted by OAGN

[Description of each key audit matter in accordance with ISSAI 2701.]

Other Information (if any)

[Report material performance issues identified during the audit in addition to matters required under ISSAI 2720, also customised to describe the specific matter giving rise to the qualified opinion that also affect other information]

Responsibilities of Management and Those Charged with Governance for the (consolidated) financial statements

Management is responsible for the preparation and fair presentation of the (consolidated) financial statements in accordance with *[applicable financial reporting framework]*, and for such internal control as management determines is necessary to enable the preparation of (consolidated) financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the (consolidated) financial statements, management is responsible for assessing the *[insert the Entity's]* ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. *[Note: include only if is applicable or relevant to a government entity]*

Those charged with governance are responsible for overseeing *[insert the Entity's]* financial reporting process.

Auditor's Responsibilities for the Audit of the (consolidated) financial statements

Our objectives are to obtain reasonable assurance about whether the (consolidated) financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with INTOSAI IFPP will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these (consolidated) financial statements.

Take 2 to be discussed

Other responsibilities of the auditor and description of audit process under NGAS are given in *[give link address to the OAGN website where such document is maintained under ISSAI 2700.41(b)]*

Report on Other Legal and Regulatory Requirements (if required)

[Report the material compliance issues identified during the course of the audit, those not have direct and material effect on financial amounts and disclosures in additional to auditor's other reporting responsibilities prescribed by laws and regulations]

Signature

Name: *[name of the signatory]*

Designation: *[position of the signatory]*

[Insert place]

Date: *[insert date]*

c. Qualified Opinion – limitation of scope

AUDITOR GENERAL'S REPORT ON FINANCIAL STATEMENTS OF [ENTITY'S NAME]

To the [addressee as required by the law or as appropriate]

Report on the Audit of the (consolidated) financial statements

Qualified Opinion

We have audited the (consolidated) financial statements of [name of the entity whose financial statement is audited], which comprise [individually list the financial statement, the date they relate to] and notes to the (consolidated) financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying (consolidated) financial statements [(present fairly, in all material respects) OR (give a true and fair view of)] of the financial position of the [name of the entity whose financial statement is audited] as at [insert date], and (of) its financial performance and its cash flows for the year then ended in accordance with [insert applicable financial reporting framework e.g. NPSAS / NFRS / special framework] and [relevant legal and regulatory requirements, if applicable]

Basis for Qualified Opinion

[Describe the qualification in this para relating to the limitation of scope, the limitation(s) as a result of which auditor was not able to obtain sufficient and appropriate audit evidence relating to audit. Also include the extent and/or quantification of limitation of scope, as far as practicable, along with the qualitative description]

We conducted our audit in accordance with Nepal Government Auditing Standards (NGAS)¹⁹⁹ and our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the (consolidated) financial statements* section of our report. We are independent of the [insert Entity such as: Ministry, Local Level, Committee, Corporation, Company Project etc. as appropriate] in accordance with the OAGN Code of Ethics together with the ethical requirements that are relevant to our audit of the (consolidated) financial statements under OAGN Code of Conduct, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the OAGN Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter (if any)

We draw attention to [Refer to the place in the financial statement e.g. in the note] of the (consolidated) financial statements, [and describe the matter on which auditor intends to draw the attention of the user under ISSAI 2706]. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the (consolidated) financial statements of the current period. These matters were addressed in the context of our audit of the (consolidated) financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Basis for Qualified Opinion* section we have determined the matters described below to be the key audit matters to be communicated in our report. [Description of each key audit matter in accordance with ISSAI 2701.]

¹⁹⁹ Nepal Government Auditing Standards (NGAS) are the standards are substantially based on INTOSAI's International Framework of Professional Pronouncements (IFPP) as adopted by OAGN

Other Information (if any)

[Report material performance issues identified during the audit in addition to matters required under ISSAI 2720, also customised to describe the specific matter giving rise to the qualified opinion that also affect other information]

Responsibilities of Management and Those Charged with Governance for the (consolidated) financial statements

Management is responsible for the preparation and fair presentation of the (consolidated) financial statements in accordance with *[applicable financial reporting framework]*, and for such internal control as management determines is necessary to enable the preparation of (consolidated) financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the (consolidated) financial statements, management is responsible for assessing the *[insert the Entity's]* ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. *[Note: include only if is applicable or relevant to a government entity]*

Those charged with governance are responsible for overseeing *[insert the Entity's]* financial reporting process.

Auditor's Responsibilities for the Audit of the (consolidated) financial statements

Our objectives are to obtain reasonable assurance about whether the (consolidated) financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with INTOSAI IFPP will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these (consolidated) financial statements.

Other responsibilities of the auditor and description of audit process under NGAS are given in *[give link address to the OAGN website where such document is maintained under ISSAI 2700.41(b)]*

Report on Other Legal and Regulatory Requirements (if required)

[Report the material compliance issues identified during the course of the audit, those not have direct and material effect on financial amounts and disclosures in addition to auditor's other reporting responsibilities prescribed by laws and regulations]

Signature

Name: *[name of the signatory]*

Designation: *[position of the signatory]*

[Insert place]

Date: *[insert date]*

d. Adverse Opinion

AUDITOR GENERAL'S REPORT ON FINANCIAL STATEMENTS OF [ENTITY'S NAME]

To the [addressee as required by the law or as appropriate]

Report on the Audit of the (consolidated) financial statements

Adverse Opinion

We have audited the (consolidated) financial statements of [name of the entity whose financial statement is audited], which comprise [individually list the financial statement, the date they relate to] and notes to the (consolidated) financial statements, including a summary of significant accounting policies.

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion* section of our report, the accompanying (consolidated) financial statements [(do not present fairly) OR (do not give a true and fair view of)] of the financial position of the [name of the entity whose financial statement is audited] as at [insert date], and (of) its financial performance and its cash flows for the year then ended in accordance with [insert applicable financial reporting framework e.g. NPSAS / NFRS / special framework] and [relevant legal and regulatory requirements, if applicable]

Basis for Adverse Opinion

[Describe in this para pertaining to the misstatement(s) that has material and pervasive effect on the (consolidated) financial statements, i.e. the magnitude of departure from the applicable financial reporting framework or legal requirements. Indicate that had the conformation to the standards and/or legal requirement been made the accompanying (consolidated) financial statements would have been materially affected. The effects of the non-conformation have not been determined.

We conducted our audit in accordance with Nepal Government Auditing Standards (NGAS)²⁰⁰ and our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the (consolidated) financial statements* section of our report. We are independent of the [insert Entity such as: Ministry, Local Level, Committee, Corporation, Company Project etc. as appropriate] in accordance with the OAGN Code of Ethics together with the ethical requirements that are relevant to our audit of the (consolidated) financial statements under OAGN Code of Conduct, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the OAGN Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse opinion.

Other Information (if any)

[Report material performance issues identified during the audit in addition to matters required under ISSAI 2720, also customised to describe the specific matter giving rise to the adverse opinion that also affect other information]

Key Audit Matters

Except for the matter described in the *Basis for Adverse Opinion* section, we have determined that there are no other key audit matters to communicate in our report.

Responsibilities of Management and Those Charged with Governance for the (consolidated) financial statements

²⁰⁰ Nepal Government Auditing Standards (NGAS) are the standards are substantially based on INTOSAI's International Framework of Professional Pronouncements (IFPP) as adopted by OAGN

Management is responsible for the preparation and fair presentation of the (consolidated) financial statements in accordance with [*applicable financial reporting framework*], and for such internal control as management determines is necessary to enable the preparation of (consolidated) financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the (consolidated) financial statements, management is responsible for assessing the [*insert the Entity's*] ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. [*Note: include only if is applicable or relevant to a government entity*]

Those charged with governance are responsible for overseeing [*insert the Entity's*] financial reporting process.

Auditor's Responsibilities for the Audit of the (consolidated) financial statements

Our objectives are to obtain reasonable assurance about whether the (consolidated) financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with INTOSAI IFPP will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these (consolidated) financial statements.

Other responsibilities of the auditor and description of audit process under NGAS are given in [*give link address to the OAGN website where such document is maintained under ISSAI 2700.41(b)*]

Report on Other Legal and Regulatory Requirements (if required)

[*Report the material compliance issues identified during the course of the audit, those not have direct and material effect on financial amounts and disclosures in additional to auditor's other reporting responsibilities prescribed by laws and regulations*]

Signature

Name: [*name of the signatory*]

Designation: [*position of the signatory*]

[*Insert place*]

Date: [*insert date*]

e. Disclaimer of Opinion

AUDITOR GENERAL'S REPORT ON FINANCIAL STATEMENTS OF [ENTITY'S NAME]

To the [addressee as required by the law or as appropriate]

Report on the Audit of the (consolidated) financial statements

Disclaimer of Opinion

We were mandated to audit the (consolidated) financial statements of [name of the entity whose financial statement is audited], which comprise [individually list the financial statement, the date they relate to] and notes to the (consolidated) financial statements, including a summary of significant accounting policies.

We do not express and opinion on the accompanying (consolidated) financial statements of the [name of the entity whose financial statement is audited] because of the significance of the matter described in the *Basis for Disclaimer of Opinion* section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these (consolidated) financial statements.

Basis for Disclaimer of Opinion

[Describe in this para pertaining to the limitation of scope that has material pervasive effect on the audit of the (consolidated) financial statements, i.e. the magnitude of limitation was so material and pervasive that the auditor was unable to determine whether any adjustments and/or disclosures were necessary or not.]

Responsibilities of Management and Those Charged with Governance for the (consolidated) financial statements

Management is responsible for the preparation and fair presentation of the (consolidated) financial statements in accordance with [applicable financial reporting framework], and for such internal control as management determines is necessary to enable the preparation of (consolidated) financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the (consolidated) financial statements, management is responsible for assessing the [insert the Entity's] ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. [Note: include only if is applicable or relevant to a government entity]

Those charged with governance are responsible for overseeing [insert the Entity's] financial reporting process.

Auditor's Responsibilities for the Audit of the (consolidated) financial statements

Our objectives are to obtain reasonable assurance about whether the (consolidated) financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Nepal Government Auditing Standards (NGAS)²⁰¹ will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could

²⁰¹ Nepal Government Auditing Standards (NGAS) are the standards are substantially based on INTOSAI's International Framework of Professional Pronouncements (IFPP) as adopted by OAGN

reasonably be expected to influence the economic decisions of users taken on the basis of these (consolidated) financial statements.

Other responsibilities of the auditor and description of audit process under NGAS are given in *[give link address to the OAGN website where such document is maintained under ISSAI 2700.41(b)]*

Report on Other Legal and Regulatory Requirements (if required)

[Report the material compliance issues identified during the course of the audit, those not have direct and material effect on financial amounts and disclosures in additional to auditor's other reporting responsibilities prescribed by laws and regulations]

Signature

Name: *[name of the signatory]*

Designation: *[position of the signatory]*

[Insert place]

Date: *[insert date]*

f. Appendix to the auditor's report:

Auditor's responsibilities and audit process disclosures to be included in the auditor's reported appended here for reference (allowed under ISSAI 2700.41(b))

As part of an audit in accordance with ISSAIs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the (consolidated) financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the (consolidated) financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

(To adapt accordingly – the going concern concept may not be relevant to an audit of the government entity. Paragraph A2 of ISSAI 2570 on considerations Specific to Public Sector Entities states going concern risk may arise, but are not limited to, situations where public sector entities operate on a for-profit basis, where the government support may be reduced or withdrawn, or in the case of privatisation).

- Evaluate the overall presentation, structure and content of the (consolidated) financial statements, including the disclosures, and whether the (consolidated) financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the (consolidated) financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

AF 1 Audit Follow-up

a. Audit Follow up MIS

1. Audit Qualifications									
Accounting year	Total number of basis for qualified opinion		No. of basis for qualified opinion implemented		No. of basis for qualified opinion partially implemented		Balance of basis for qualified opinion to be implemented		
<i>Guide</i>	<i>Refer from the paragraph in Basis of Qualified Opinion in the auditor's report</i>		<i>Inquire the management or review the evidence (documents) of qualifications if resolved</i>		<i>Review evidence and apply professional judgement to record the status of instances under Basis of Qualified Opinion as partially implemented</i>		<i>After considering the status of fully implemented and partially implemented, record balance to be implemented here.</i>		
2. Preliminary Audit Report									
2.1. Detailed follow up report for the financial year 20XX?									
Observation Reference	Audit observation	Amount	Management response current status		OAG's further action, comments and conclusion				
<i>Guide</i>	<i>Extract an observation in brief from the management report</i>	<i>If relevant</i>	<i>Based on written response from the management along with supporting documents of actions being taken on audit observations</i>		<i>Indicate as implemented, not implemented, partially implemented. State further comments for status having "partially implemented" and "not implemented"</i>				
2.2. OAGN Follow up report on PAR findings									
Accounting year	Total number of audit observations in PAR		No. of audit observations implemented		No. of audit observations partially implemented		Balance of audit observations to be implemented		
<i>Guide</i>	<i>Audit unresolved observations in the PAR</i>		<i>Inquire the management or review the evidence (documents) of audit observations if resolved</i>		<i>Review evidence and apply professional judgement to record the status of audit observations as partially implemented</i>		<i>After considering the status of fully implemented and partially implemented, record balance to be implemented here.</i>		
	no.	NPR	no.	NPR	no.	NPR	no.	NPR	

b. Format of auditees requests to settle audit observations

As per OAGN letter format

c. OAGN's letter indicating settlement of audit para

As per OAGN letter format

QC 1 Quality Control Questionnaire

1. Quality Control at field level – <i>[to be completed by first level reviewer i.e. the Team Leader]</i>				
		Yes/ No/ NA	Reviewer's comment	Action Taken
1.	Have all procedural steps been adequately completed and signed off? When a working paper of procedural steps is omitted, adequate reasons are supplied			
2.	Have the conclusions drawn adequately and supported by appropriate and sufficient audit evidence?			
3.	Are significant deviations from the overall audit plan and any changes in the scope of the audit (if any) have been properly documented?			
4.	Have all significant professional judgements made been documented and are supported by appropriate audit evidence?			
5.	Was the audit conducted in accordance with the relevant audit approach, guidelines and other directives?			
6.	Have all significant audit matters been resolved or have been appropriately reported			
7.	Are the reported findings supported by adequate and sufficient audit evidence?			

2. Quality Control at second level – [to be completed by second reviewer i.e.by supervisor]				
		Yes/ No/ NA	Reviewer's comment	Action Taken
1.	Review performed by the first reviewer is adequate and appropriate			
2.	The audited (consolidated) financial statements (and other relevant audited information) have been identified and clearly linked to the audit through the working papers			
3.	Significant deviations from the overall audit plan and any changes in the scope of the audit have been documented			
4.	Based on the underlying audit work and findings the correct audit opinion can be expressed			
5.	The work performed and results obtained have been adequately documented			
6.	All key working papers are in place and are consistent with each other and the final audit report, findings reported			
7.	Audit is consistent with the applicable auditing standards and the audit procedures of OAGN			
8.	Audit have been conducted as planned and in accordance with the applicable legal requirements applicable to financial audits			



महालेखापरीक्षकको कार्यालय Office of the Auditor General

बबरमहल, काठमाडौं, नेपाल
Babar Mahal, Kathmandu, Nepal

नीति योजना तथा जनशक्ति विकास महानिर्देशनालय

पत्र संख्या २०७७/७८ च नं ०३



मिति २०७७/१४/१६

विषय नेपाल सरकारी लेखापरीक्षणको कार्यान्वयन सम्बन्धमा

नेपाल
२०१६

श्री सबै विभागहरू

श्री सबै महानिर्देशनालयहरू

श्री सबै निर्देशनालयहरू

महालेखापरीक्षकको कार्यालय ।

उपरोक्त सम्बन्धमा लेखापरीक्षण ऐन, २०७५ को दफा २९ ले दिएको अधिकार प्रयोग गरी महालेखापरीक्षकले गर्ने लेखापरीक्षणलाई वस्तुपरक, विश्वसनीय र भरपर्दो बनाई लेखापरीक्षणको गुणस्तर अभिवृद्धि गर्न साविकमा स्वीकृत भएका सरकारी लेखापरीक्षण मानदण्ड एवं सरकारी लेखापरीक्षण नीति मानदण्ड खारेज गरी सर्वोच्च लेखापरीक्षण संस्थाहरूको अन्तर्राष्ट्रिय संगठनले जारी गरेका अन्तर्राष्ट्रिय लेखापरीक्षण मान (INTOSAI Framework for Professional Pronouncements, IFPP) मा आधारित "नेपाल सरकारी लेखापरीक्षण मान" (Nepal Government Auditing Standards, NGAS) २०७७/१४/१६ मा स्वीकृत गरिएको छ । अतः कार्यालयबाट यस वर्षदेखि लेखापरीक्षण गर्दा तपसीलका नेपाल सरकारी लेखापरीक्षण मानको कार्यान्वयन गर्नु हुन अनुरोध छ ।

तपसील

NGAS नम्बर	नेपाल सरकारी लेखापरीक्षणमानको नाम
INTOSAI-P 1	The Lima Declaration
INTOSAI-P 10	Mexico Declaration on SAI Independence
INTOSAI-P 12	The Value and Benefits of Supreme Audit Institutions- making a difference in a life of citizens
INTOSAI-P 20	Principles of Transparency and Accountability
ISSAI 100	Fundamental Principles of Public-Sector Auditing
ISSAI 130	Code of Ethics
ISSAI 140	Quality Control for SAIs
ISSAI 200-299	Financial Audit Principles
ISSAI 300-399	Performance Audit Principles
ISSAI 400-499	Compliance Audit Principles
ISSAI 2000-2899	Financial Audit Standards
ISSAI 3000-3899	Performance Audit Standards
ISSAI 4000-4899	Compliance Audit Standards

जानकारीको लागि

माननीय महालेखापरीक्षकज्यू ।

भवदीय

(घनश्याम पराजुली)

नायव महालेखा परीक्षक

Phone: 4258174, 4266034, 4255707, A.G. Fax: 977-1-4268309, Fax: 977-1-4262798, Post Box: 13328

email: aag.mgmt@oagnep.gov.np

Web Page: www.oagnep.gov.np

"जनहितका लागि जवाफदेहिता, पारदर्शिता र निष्ठा प्रवर्धनमा विश्वसनीय लेखापरीक्षण संस्था"